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Globalisation, Policy Convergence and Labour Market:
the political economy of reforms

ZAAD MAHMOOD

Thesis submitted for the degree of PhD in Politics

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Declaration for PhD thesis

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Signed: _____ Zaad Mahmood _____

Date: _____30 August 2012_____

Dedicated to the memory of my father and future of my daughter

To Babuji and Raisha

Acknowledgement

Bismillahir-Rahmanir-Rahim

In the name of God, most Gracious, most Compassionate

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30 August 2012

Zaad Mahmood

Abstract

This dissertation shows the relevance of political agency under conditions of globalisation through a sub-national comparative study of labour market reforms. The study builds upon existing literature by highlighting ‘relative autonomy’ of political actors and dynamics in determining policy and outcome. Such an assertion contradicts the purely structuralist interpretations of reform and asserts that forces of globalisation can be negotiated by domestic political actors.

Based on the study of labour flexibility the dissertation argues that political variables, specifically partisan orientation and nature of party competition, influence the pace and direction of reforms producing sub-national variations. As revealed governments backed by a relatively homogenous dominant support base with business representation undertake greater labour market reforms compared to governments with heterogeneous base. The difference in orientation to reform is due to differences in distributive and redistributive pressures emanating from support base.

Another important finding of this research concerns the impact of party competition on reforms. Contrary to conventional understanding that fragmentation impedes reforms, the case study, reveals that fragmentation in the party system facilitates labour market reforms. The result indicate that the impact of political fragmentation on reform is not generic, and intermediate factors such as configuration of electoral cleavages influence the relation.

In sum, the dissertation argues that variations in strength of interest groups i.e. trade unions and business, the nature of party competition and configuration of electoral groups combine to produce variation in reforms. Although such a claim cannot undermine the increased relevance of market forces consequent upon globalisation, theoretically, it does point out that reforms emerge in the interrelation between economic considerations vis-à-vis political imperatives. Public policy under conditions of globalisation is shaped not merely by economic concerns but mirrors social trade-offs and varieties of social configuration.

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Introduction

1. Globalisation and public policy

Contemporary developments characterised under the broad rubric of globalisation has emerged as the meta-narrative of present times with significant implications for society, politics and economy. Globalisation as commonly understood involves restructuring of the economy on a global scale through deregulated markets, creation of international networks, and multi-nationalisation of production. Naturally, such a process has led to systemic changes with implications for policy autonomy of states (Sachs 1995). In the sphere of public policy, the relevance of domestic socio-economic interests in policymaking has increasingly come under question as states appear to be constrained by global economic considerations. Friedman (1999) has famously used the metaphor of “*golden straight jacket*” to signify increasing prosperity alongside limitations in state autonomy that characterise contemporary globalisation. In policy literature, such developments have often been framed in terms of *democracy deficit in national policymaking*, *domination of neoliberal capitalism*, *global interdependence* among others (Patnaik 2003; Aman 2004).

1.1 Globalisation and policy convergence

Public policy, an area hitherto considered the domain of national political economy, has emerged as an important issue in the context of transformations associated with globalisation. It is argued that under conditions of globalisation states increasingly adopt similar policies that expand the scope of markets, empower non-state actors and encourage economic interdependence (Strange 1996). In literature, such increasing similarity in the policies of nation states is characterised as *policy convergence*.

A survey of contemporary public policy literature reveals extensive debate among scholars about policy convergence. According to the group of scholars characterised as '*structural theorists*', globalisation leads to policy convergence due to the external environment like international economy, international regimes, and multilateral agreements (Omae 1995; Huber 2001). The influence of external economic and political factors on domestic policy is considered decisive under conditions of globalisation.

A more sympathetic version holds that, intensified economic competition characterised by mobility of capital and technological changes increase the cost of economic closure forcing adoption of similar policies. This view known as *policy coordination* attributes adoption of certain policies to either emulation of best practices by states or competitive pressure to attract mobile capital (Mosley 2007). Scholars like Garrett (1998b) and Downes (2004) argue that states continue to have power over the market, and convergence is conscious political choice.

Contending the materialist (structural and coordination) hypothesis for convergence, the *World Society Approach* locates the source of policy convergence in the realm of ideas. The theory focuses on the conscious adoption of neoliberal policies and points to the spread of certain models and ideas through 'global cultural and associational processes' leading to policy consistency. Such global ideational norms are facilitated through global scientific discourse, international organisations, increased the role of technocrats and mimetic emulation of states (Knill 2005).

Thus, broadly the policy literature emphasises on the role of *external economic factors* such as international cycles of demand and price, conditionality in agreements; *ideational factors* such as transmission of development paradigm and *political-economic considerations* in limiting policy autonomy of states under conditions

of globalisation. Naturally, the three categories of factors remain intertwined, and their relative importance is specific to historical and socio-political contexts.

1.2 Policy convergence or heterogeneity

Empirical evidence of convergence or transformation towards neo liberal policies across the world, however, presents a somewhat complicated picture with instances of convergence along with continuation of national heterogeneities. Contradicting the arguments of convergence towards a neoliberal ideal, scholars such as Pierson (2001) and Kong (2006) argue that despite globalisation substantial national heterogeneity persists. They point out adoption or rejection of set of policies is not merely conditioned by the growing internationalisation of economic activities but also on a nation specific political, institutional and structural framework.

Such arguments find credence in studies on the implementation of structural adjustment and welfare state literature that highlight continued relevance of domestic political factors in policy reforms. Haggard (1993) has noted that economic reforms guided by World Bank, IMF and other international economic institutions have been implemented coherently in only a minority of countries owing to domestic pressures.

Scholars subscribing to *varieties of capitalism* argument emphasise the importance of institutional linkages and legacies in explaining continued policy heterogeneity across states. The varieties of capitalism argument attribute difference in corporate governance, labour market, intercompany relations, labour relations and training between the Liberal Market Economies and the Coordinated Market Economies to institutional and political dynamics (Hall 2001; Kong 2006). Scholars working on welfare state have also pointed out continued policy

heterogeneity due to institutional impediments such as the electoral system, legislature, regime type and path dependence (Pierson 2001; Nelson 1990).

Although instructive, such interpretations of continued heterogeneity are called into question due to their relative neglect of political agency such as political parties and socio-economic interests. Interestingly theoretical argument of both policy heterogeneity and convergence inspite of their differences in analytical outcome seems to agree on the marginalisation of political agency under conditions of globalisation. A careful reading of the literature suggests that perceptible policy differences are primarily attributed to structural and institutional dynamics, and the role of political agency is considered marginal under the altered circumstances.

2. Role of political agency: Analytical point of departure

This dissertation seeks to build on and contribute to the existing literature, by evaluating the role of political factors in public policy under conditions of globalisation. Thus, the dissertation locates itself in two broad strands of contemporary scholarly debate.

At a generic level, this dissertation seeks to address the issue of policy convergence-heterogeneity in the context of transitional economies through an evaluation of political actors and processes. The interaction between political dynamics and economic policies has remained relatively understudied in the transitional economies, and this dissertation contributes to the literature. Much of the existing literature based on developed economies highlight the role of institutions such as political framework, nature of economy, nature of business organisations in policy variations. As such, there exists an urgent need to reassess the role of political agency in contributing to policy transformation in transitional economies.

In addition, analysing the role of political variables to understand policy transformation contributes towards the wider debate on the relation between politics and economic policy under conditions of globalisation. There exist literature such as Przeworski (1991) and Nayyar (1998) that emphasise on the tensions between economic reforms and political conditions in transitional democracies where negotiations between different social forces and interests of political elites determine reform outcomes. As such, the attitude of domestic political actors towards policy reform can potentially indicate the infra-national factors of transformation. As Skocpol (1985: 120) comments ‘it makes no sense to reduce political choices to the dictates of economic circumstances, for economic circumstances do not command so unambiguously, not even at moments of extraordinary crisis’ (Evans et al. 1985).

At a specific level, this dissertation contributes to the literature on politics of labour reforms in transitional economies. The research outcome emphasising the continued relevance of interest groups, partisan orientation and party competition highlight political determinants of labour reform. Such an analysis builds on the literature on labour reforms such as Horton (1994) and Cook (2007) which look into dynamics of labour reform in transitional economies.

The adoption of comparative sub-national case study also provides insights regarding the location of policymaking in multi-level polity. The research considers the interaction between politics and market forces as a causal explanation and locates the space for such interaction largely at the sub national level. Such a claim reiterates recent literature on federalism that highlight the importance of regional states in mediating the process of structural adjustment and institutional and political innovations at the regional level (Sáez 2002; Sinha 2005).

In sum, the dissertation attempts to identify and evaluate the political factors that influence policy reforms. At one, level, the research contributes to the

literature on political variables in explaining policy heterogeneity (see for e.g. Esping-Andersen 1996; Garrett 1998a; Korpi 2003). At another, it seeks to reassess existing political economic arguments of reform based on the study of labour market in a transitional economy. Such an effort contributes to the growing literature on reforms in transitional societies such as Alesina 1991, Nelson 1991, Harrison 1997, Cook 2006 and Deshpande 2004 among others.

3. Globalisation and Labour Reforms

In recent times, there has been an increasing trend to focus on the interactions between product market and regulations especially in the labour market for its consequences on employment, wages and overall growth. Characteristics of the labour market such as bargaining coverage and employment protection legislation have significant consequences for product market interventions.

In the context of policy, neoliberal economics emphasises on increased deregulation to remove all “distortions” in the factors markets leading to optimal allocation. Since labour is a factor of production, globalisation discourse propagates increased flexibility and deregulation of labour market. Critics, however, express concerns about the distributive aspects of free market and oppose labour reforms towards flexibility on grounds such as welfare, social equity and balanced growth (Chandrasekhar 2000).

Further labour market has significant ramifications for the overall economy and serves as a key transmission mechanism of resources to the poor (Horton 1994). Naturally, labour market reform has attracted enormous academic as well as policy attention as a crucial component of second-generation reforms.

. The issue of labour market remains highly contested and debated. Labour is not only a resource of production but constitutes a prominent social group capable of political manifestation. Across the world, labour reforms towards deregulations remain contested as the working class has potential to resist reform (Przeworski 1993). There is a large body of literature such as Horton (1994), Rama (1997) and Rueda (2007) that point out role of organised labour in impeding economic reforms. As such, labour reform with significant economic and political ramifications and inherent public character make it a matter of serious interrogation.

The relevance of labour market in political- economic research is further augmented by the peculiarity of the process. As a contested and challenging aspect of economic reform, most of the labour reforms have been through stealth. Hence, even though the extent of reform in labour markets has been low compared to product market, labour policy transformations constitute one of the most challenging and political dimensions of reform. A study of labour market politics provides an excellent opportunity to evaluate the role of political factors in determining policy and outcome under conditions of globalisation. The study of labour reforms across Indian states reveals how reforms have progressed at a subterranean level through administrative fiats and action (inaction) rather than formal policy transformation.

3.1 India as a case study: politics of sub-national variation

In the context of political-economic evaluation of labour reforms, India presents an attractive natural experiment. India has emerged as an economic power

in the last decades distinguished by its democratic federal framework. Most of the developing countries including India discarded the state led development approach and adopted market led model in the late 1980's and early 1990's primarily due to internal policy failure and international pressure (Mukerjee 2007). Interestingly, despite similar institutional and structural conditions, the path and extent of reform has varied within sub-national states of India, which constitutes the case study for this research.

The states under consideration are Gujarat, Maharashtra, Andhra Pradesh and West Bengal. Gujarat and Maharashtra are high growth, high per capita, high Foreign Direct Investment (FDI) and comparatively more industrialised states of India. In contrast, the states of Andhra Pradesh and West Bengal are medium growth, median per capita and moderately industrialised. The respective group of states i.e. Gujarat, Maharashtra and Andhra Pradesh, West Bengal are remarkably similar in economic structure such as in terms of size of the economy, in terms industrial contribution, composition of industries and economic integration as revealed through FDI inflows.

Being provinces of India, these states have similar institutional structures such as organisation of bureaucracy, broad contours of labour laws, electoral and political system and level of socio-economic development. The state centred developmental model pursued after independence enhanced such institutional similarity. Despite such structural (economic) and institutional similarities across the states, the labour market outcome appear to diverge. According to the index of labour market flexibility based on policy (regulations) and market outcome (wage share, proportion of contractual labour) there exist substantial variation across sub-national states. Analysis reveals that Andhra Pradesh and Gujarat have a comparatively flexible labour market than Maharashtra and West Bengal. Existing research on comparative labour market flexibility by Shyam Sundar (2008) and

Aghion (2008) also endorse such an evaluation of West Bengal and Maharashtra as relatively of employee friendly state while Gujarat and Andhra Pradesh as pro employer state.

Existing literature on reforms explains such variation through ideological nature of regimes and power of trade unions. However, such explanations fall short on scrutiny. Although political ideology and interest groups explain the extent of labour flexibility across West Bengal, and Gujarat (*in West Bengal until recently an alliance of left parties was in power while in Gujarat, the centre right BJP in is power*), they fail to explain labour flexibility across Andhra Pradesh and Maharashtra (*in former the political contest is between centrist Congress party and Telegu Desam Party while in latter alliance of Congress-NCP and BJP-Shiv Sena constitute main parties*).

Similarly, strength of organised interests such as trade unions also cannot account for the variations across the selected cases. Extent of trade unionisation is relatively higher in Andhra Pradesh than Maharashtra, but flexibility appears higher in the former. Thus, accounting for political party in power and relative strength of interest groups (trade unions) labour market flexibility in the states, present us with an incomplete explanation of labour market variation.

This research argues that variations in labour market policy and outcome exhibited across sub-national states is not merely due to variations in political agencies such as trade unions, business organisations and political party but also their dynamic inter-relation. In this research, policy is conceived as the outcome of a process of bargaining, negotiations and trade-off between relevant socio-economic interests within specific political context. The analysis is based on both quantitative and qualitative data, supplemented by empirical and theoretical literature.

4. Policy reform and political agency

Policy is primarily the prerogative of the government and policy reform may be viewed as a change in the set of beliefs and interests of governments determined by the relative costs of the policy alternatives. Theoretically, policy decisions by governments are guided by external compulsions, intra-governmental dynamics and agenda of party in power. Since the research builds on sub-national comparison, the broader exogenous concerns, institutional and structural features of government such as regulations remain largely similar, and any perceptible difference can be attributed to the party in power.

Notably the role of political parties' towards economic policies has been a key theme in political economic analysis. Partisan differences in orientation to reforms emphasises on the interrelation between economic policy and the ideological-material interests of governing political party. The conventional relation between political parties and economic-social policies derived from literature reveals two broad strands of arguments, namely instrumental and ideological arguments.

Among the main socio-economic interests that have an interest in labour policy and outcome are businesses and trade unions. Trade unions by the very logic of their existence seek to protect and increase wages, work conditions and social benefits for workers. Trade unions use their collective status to scuttle or extract compensation for reforms that have implications for wage, employment and job security.

Like labour, business groups are a key actor as entrepreneur or business owns the means of production and employs wage labour in the production process. Businesses favour labour flexibility to facilitate greater managerial prerogative in the adjustment of factors of production and greater profit

accumulation. Hence, a large private sector increases the pressures for labour market flexibility.

Thus, in the context of this research, interest groups such as business or trade unions and political party emerge as crucial political economic variable in determining labour market variations. However such an interest group analysis suffers from inherent limitation as actors i.e. individuals, parties or businesses, may occupy several different positions in the economic structure simultaneously leading to conflict of interests regarding reforms. Since the orientation is likely to be influenced by the perceived interests, any analysis must take into consideration the constitutive process of such identity, namely prevailing political dynamics, socialisation and political discourse.

In other words, interest based analysis is not a static zero-sum game and to analyse the role interest groups or political parties one has to consider the wider environment. In this context, the party system has a crucial role. The relevance of the party system is highlighted in policy literature that argue coalition governments lag in reforms compared to a single party dominated systems. It is argued that fragmented party systems encourage populist policy stance, make mobilisation of legislative support difficult and contribute to political instability (Haggard 1993).

Thus, the literature on political variables of economic reforms although insightful suffers from limitations that necessitate further research, particularly from the perspective of transitional economies.

5. Research Findings: reviving the political argument

Based on the dataset and comparative case study the research argues that policy transformation i.e. policy change under conditions of globalisation remains intractably a political process. Political dynamics and relative autonomy of political agency influence the pace of reforms leading to sub-national variations. Specifically

the variation in labour policy and outcome across sub-national states appear to be a function of strength of partisan orientation of government and nature of political competition.

As the case study suggests, the strength of organised labour movement is partially responsible for variation in labour flexibility. Such an outcome corroborates the inverse relationship between strength of trade union and extent of labour market flexibility. However investigating the sources of trade union influence brings into focus the role of trade union -political party linkage and structure of the economy. To put it simply, even though trade union movement impedes labour flexibility, given the historical development of labour movement in India, the strength of labour is largely dependent on political linkages and patronage of the state.

Similarly, source of relative variation in business influence also appears to emanate from linkages to party in power, more specifically the nature of business-party interaction. States where business castes have significant representation within government seem to proceed with greater reforms than states where businesses do not constitute electorally relevant socio-economic group.

Thus, even though interest group dynamics appear relevant, the influence of organised interests is contingent upon wider political dynamics particularly the partisan orientation of government. The relevance of political parties in India, much like many other transitional economies, is augmented due to historical institutional developments specifically the adoption of state led strategy of economic growth that made agencies of state crucial. Chhibber (2001) points out that the importance of political parties is amplified in India due to relative historical weakness of 'associational way of life' or civil society organisations and the pre-eminent role of the state in 'economic life'.

In the particular case, political parties emerge as a crucial determinant in shaping relative dynamics of interest groups and policy reforms. Political parties, influence labour reforms not only through the formulation of policies when in power but also through interrelation with other parties and contending social interests i.e. party-business-labour.

In the context of labour reform when business classes or castes constitute a significant constituent for party in power, the extent of reform is greater. However, as political parties derive support from a cross section of society, the influence of business is more effective when socio-economic support base is stable and relatively homogenous. Conversely, if, the support base is wide and heterogeneous, governments in spite of business representation often find it difficult to pursue reforms due to the redistributive pressures from support base. The divergences in the support base of parties appear to influence not only orientation of governments across regimes, but also across states.

Such divergences in electoral support base for parties can be attributed to ideological as well as instrumental dynamics. The support base is the outcome of underlying cleavage structures in society as well as intervention by political parties to construct support bases. In India, due to various historical, social, and political reasons political mobilisation and aggregation has developed along ascriptive identity leading to the construction of electoral support dominated by relatively heterogeneous or homogenous groups.

The socio-economic support base is also conditioned by the wider party system as parties do not operate in a vacuum, and the nature of party competition affects partisan orientation. Moreover, the party system has implications for policy reforms as prevalent literature suggests that fragmentation in the party system impedes reforms due increasing number of decision makers (Haggard 1995; Roubini 1989).

Interestingly, the conclusions derived from the case study reveals that contrary to conventional arguments, fragmentation contribute to greater reforms. The case study reveals that increases in the effective number of parties, in fact, facilitates labour market reforms through distinct yet interrelated factors. Firstly, increasing number of political parties based on social cleavages such as caste and communitarian identities marginalise the issue of labour in political discourse. Fragmentation also enables the actual realignment of class interests within broader society manifested through fractures in the party system. Finally, party fragmentation has implications for the trade union movement particularly in situations of political unionism.

6. Theoretical interventions and potential contribution

The findings of this dissertation highlight the continued relevance of political agency and dynamics in determining policy and outcome under conditions of globalisation. Specifically, in transitional economies, characterised by a legacy of state intervention in the economy and weak organised interests, political dynamics, particularly partisan orientation and party system have relatively greater influence on economic policymaking.

Such an outcome contradicts the argument that, under conditions of globalisation, the role of politics has become emaciated particularly in the domain of economic policymaking. The research outcome contradicts the numerous studies that argue global integration has emaciated the role of politics by constricting policy autonomy of states. The case study reveals that increasing flexibility has significant causal relation to partisan orientation or political support for government.

The implication of such an outcome is relevant due to two interrelated factors. Firstly, analysing the argument of policy convergence in the light of

broader political experience, it becomes apparent that although external pressures may be significant, the implementation and outcome of reforms is always contingent on domestic political dynamics. Policy transformation towards neoliberal consensus can, at best be partially attributed to global economic structure.

Secondly, contrary to arguments of increasing irrelevance traditional political actors such as social groups and political parties, this research argues for continued relevance of both social groups and political parties. The dissertation is critical of comparative studies that marginalise the role of class, group or interest and argues that distributive conflicts between key interests groups reflected through the political process continues to determine socio-economic policies under globalisation (Korpi 2003). Even though, structural transformation has meant increased space for market forces in the determination of economic outcomes, there remains scope for politics to influence the process.

Although claim regarding political determinants of reforms has been a consistent theme in policy research, this research is distinct as far as it identifies specific political agencies and processes that influence labour market reforms in India.

The dissertation through an argument of relative autonomy of political agency reintroduces the issue of agency in the discourse of reforms. The argument suggested acts as a bridge between the literature that expounds the supremacy of global economic transformations (Strange 1996) and those that doubt the effect of globalisation on state capacity (Garrett 1998).

1.1 Table on political agencies influencing labour reform

	Trade Union	Business Organisation	Political Party in Power	Party System
Position on Reform	Opposed to labour reform	Favour of labour market flexibility	Support Base and Economic situation	Ideological competition i.e. Left, Right
Strategy	Collective Action Influencing Government	Influencing Government	Policies and Implementation	
Structures	Fragmented Political Affiliation	Fragmented or Semi- Corporatist	Heterogeneous or Homogenous support	Two-party or Bipolar Contest
Political Outcome	Mobilisation but politically unsuccessful	Business-Politics Linkage	Political discourse Specific Support Base	Party fragmentation Identity politics Fragmentation of TU
Economic Outcome	Declining Investment,	Increasing Reforms Precarious Employment	Gradual or fast reform according to party in power	Facilitating reform

7. The Chapters

The arguments discussed so far have been elaborated in the proceeding chapters of the dissertation.

The first section Part 1 delineates the broad theoretical positions and arguments regarding globalisation, policy convergence and labour market reforms and presents a theoretical model to interrogate such a relation. Chapter 1 at the outset deals with the different definitions of globalisation to elaborate the nature and impact of such processes. This is then theoretically linked to the discussion on public policy and questions about policy autonomy and convergence in the perspective of globalisation. A major part of this section deals with a critical overview of the factors and mechanisms that determine convergence. Chapter 2 deals with theoretical questions relating to labour reforms in the context of globalisation and presents a detailed literature review on the factors that condition labour market reforms. An important theoretical contribution in this section is the construction of index of labour market flexibility to enable sub-national

comparative study. The index of labour market flexibility presented provides a measurable quantitative guide to labour market conditions at sub-national states in India.

The second section Part 2 broadly discusses the research design and hypotheses that drive the research. The section elaborates the sub-national comparative model where four states are selected because of their institutional and economic similarities but variations in labour market outcome. The comparison is based on the logic of most like cases, where Gujarat and Maharashtra are representative of high growth, high per capita and high FDI states while Andhra Pradesh and West Bengal are medium growth, moderate per capita, and FDI states. Chapter 3 elaborates the hypotheses on the four main political factors – trade unions, business, political party, and party system, which are considered crucial in the determination of labour policy. Although most literature emphasise on government rather than political parties as the crucial actor in public policy, this dissertation focuses on party and party system as the institutional structure of government is broadly similar across the sub national states. Chapter 4 outlines in detail the selection of particular sub-national states along with India as a valuable and relevant case study.

In the third section Part 3, the four hypotheses are discussed in detail. The chapters deal with the potential explanations of divergences in labour market reforms under conditions of globalisation. Chapter 5 deals with business as a potential explanation for variations in labour market condition and policy whereas Chapter 6 concerns with organised labour. Chapter 7 and 8 form the core of this research as they discuss the role of the partisan support and party system in determining labour market policy and outcome.

The concluding Part 4 presents the conclusions and findings of the research. The research points out that although globalisation is leading to pressures

for policy convergence national or regional heterogeneities remain to due institutional –political differences. Thus, there is movement towards a common minimum but with different trajectories. The political aspect of divergence is accounted by nature of the party system and socio-economic support base of parties.

Part I

Theoretical Section

Chapter 1

Globalisation, Public Policy and Convergence

1. Globalisation and policy

Globalisation, as a process as well as a phenomenon, has been a subject of intense debate particularly due to its transformative role in contemporary society, economy and politics. Scholastic interpretations of globalisation have ranged from simple economic integration to complex socio-economic transformation that characteristic contemporary global interdependence. Most scholars seem to agree that globalisation is incrementally shaping social, political and economic outcomes, and present socio-political analysis remains incomplete without reference to it. As a political economic research on politics of public policy specifically labour policy and outcome, this dissertation begins with interrogating globalisation as the analytical point of departure.

1.1 Defining globalisation

Any attempt to define globalisation is problematic as it encompasses a variety of connotations and its impact has been differential over countries and social groups. The World commission on the social dimension of globalisation, a report commissioned by the International Labour Organisation, introduces globalisation as a divisive subject that verges on a dialogue of the deaf (Globalisation 2004). The debates over globalisation are reflective of the extensive scope and contradictory impact of the process.

To proponents such as Wolf (1997) and Bhagwati (2004) globalisation is a progressive development heralding a new age of prosperity and wellbeing for all. Scholars such as Friedman (1999) provide ideological and socio economic perspective of globalisation as the triumph of capitalism and free market over

other forms of social arrangement and ideology. Thus to advocates, it is beneficial for economic growth, promotion of political democracy and greater opportunities for the populace.

However, to the opponents, globalisation represents increased socio economic disparity and worldwide dominance of monopoly (Patnaik 2003). According to the dominant leftist interpretation, globalisation is the spread of profit maximizing capital across the world through military and ideological apparatuses (Wallerstein 1974). Critical perspectives view globalisation as a detrimental process such as facilitating the global exploitation of natural resources, withdrawal of the state from the economy that serves the interest of rich and powerful nations, cultural homogenisation among others. Based on the diverse points of view representing manifold perceptions and existing scholarship, it is possible to decipher some broad features of contemporary globalisation.

Globalisation has been identified with the dramatic economic and social transformations in late 20th and early 21st century. Emphasising on the technological revolution, Castells (1989) defines the contemporary global economy and society as a 'network society' based on information and technology revolution. Focusing solely on the economic dimension Piore and Sabel (1984) characterise globalisation as a new stage of production organisation i.e. post fordism replacing the earlier fordist model of mass production. Sklair (1995) considers globalisation as the global phase of capitalism with a transnational capitalist class that requires continually increasing production and trade with necessary political condition to help global expansion. Scholte (2000) on the other hand, emphasises on the spatial dimension of globalisation by pointing out the supra-territoriality or emergence of trans-border spaces and networks of production, civil society, politics and information.

A survey of the extant literature reveals that globalisation can be said to have three broad dimensions namely, economic, socio-cultural and political-spatial.

Firstly, globalisation has a distinct economic connotation. Pascal Lamy (2006), the director of World Trade Organization, has defined globalisation as a historical stage of accelerated expansion of market capitalism, similar to the one experienced in the 19th century with the industrial revolution. The focus of such an explanation is on the increasing economic linkage between states that has created a worldwide network of production, distribution and consumption. Empirical evidence confirms that world trade has expanded rapidly over the past decades and consistently outstripped world gross domestic product (GDP). The emphasis of such a view is primarily on external economic liberalisation by states reflected through flows of trade, foreign direct investment, and portfolio investments (Garrett 1998b; Sikdar 2004).

Secondly, scholars argue that globalisation is increasing interconnection between societies resulting from socio-cultural transformations. According to Waters (2001) it is the cultural domain that is leading to globalisation of the economy and polity. Such global integration is a function of the extent that the economy and polity are “culturalised” in the emerging global norm. It is pointed out that many features of contemporary nation-state systems are derived from worldwide models propagated by “global cultural and associational processes” which contribute to cultural and ideological standardisation (Meyer 1997).

Thirdly, globalisation has a political connotation. Keohane and Nye argue that the process of globalisation creates a network of complex interdependence through multiple channels of interaction guided by transnational rules and organisations (Lechner and Boli 2008). Although nation-states remain as the major actor, there exist several centres of power and no singular hierarchy of power or agenda. It is argued that international treaties and organisations such as GATT,

TRIMS and IMF have significantly restricted policy options for states. WTO rules now form the framework of institutional interaction and constrain in varying degrees the policy autonomy of nation states. All of these measures have contributed to the creation of multi-channel interaction and supra national rules and entities.

Given the expansive scope scholars like Kellner (2002) and Held (2000) have defined globalisation as the increasing economic, political and cultural interaction and interdependence among states. According to Kellner (2002) globalisation is the product of technological revolution and global restructuring of capitalism in which economic, technological, political and cultural features are intertwined. Similarly, Held (2000) argues that globalisation manifests through certain policies and practices such as strengthening the dominance of market economy, constricting the role of states, expanding the influence of transnational corporations and undermining local culture through the creation of a 'global culture'. Necessary to mention while globalisation is multi-faceted historical process, it remains distinguished primarily in terms of scale of economic interdependence (Garrett 1998; Drezner 2001).

1.2 Globalisation and public policy

An important consequence of globalisation that has emerged as crucial to political scientists and policy makers concerns the issue of public policy. It is argued, not without evidence that globalisation has led to systemic changes with implications for policy making autonomy for nation states (Sklair 1995). States increasingly appear to adopt policies that expand the scope of markets, empower non-state actors and encourage economic interdependence (Rodrik 1997). Such systemic transformations specifically the increasing similarities in public policy have led to currency of the idea of policy convergence. As Sachs (1995) points out,

globalisation is not merely the integration of the national economy with the world economy, but also institutional harmonisation with respect to property laws, trade rules, tax system and other regulatory arrangements.

However policy congruence or convergence under globalisation has implications for the domestic economy and society as public policy reflects distributive concerns within societies. Rodrik (1997) points out that globalisation has altered the balance between business and other social groups and workers have to bear the greater share of cost of reforms. Similarly, Ross (2000) has pointed out that the transnationalisation of capital has largely emaciated the bargaining power of the labour confined within national boundaries. As such the issue of convergence relates to questions about decision making autonomy for state actors.

2. Globalisation and convergence: theoretical debates

A survey of the literature reveals that scholars are not in agreement regarding the relation between globalisation and public policy. Broadly there exist three distinct viewpoints; namely *hyperglobalisers*, *transformationalists* and *sceptics*.

Hyperglobalist scholars like Omae (1995) and Strange (1996) argue that globalisation undermines the state by the global market and constrains policy autonomy of states. They argue that powers and functions of the state are eroding vis-à-vis global actors such as multinational corporations and inter-governmental organizations due to increasing de-territorialisation of production and producers, privatisation of economic activity, dominance of global market rules and rise of ethnic cleavages. Thus, the impetus for convergence or reform may be external such as international organisations or global trade or internal like increasing cost of economic closure or epistemological likeness due to economic considerations. Evidently such a view of convergence privileges economic logic and contends that

the needs of global capital impose a neoliberal economic discipline on all governments.

Opposed to the hyperglobalisers, the sceptics contend that globalisation does not entail any fundamental change in the state based international system and states retain substantial policy autonomy. Rejecting the hyperglobalist assumptions, sceptics contend that contemporary globalisation reflects heightened levels of interactions between predominantly national economies. Hirst and Thompson (1996) totally reject the 'myth' of declining state and argue that nation states and national economies continue to predominate in the age of 'interdependence'.

Diverging to these two binary classifications the transformationalists argue that globalisation heralds a new era of rapid changes that reshape existing societies and world order, and as a process replete with contradictions there is no certain causal relation between policy and globalisation (Scholte 1993). They argue that unprecedented changes due to globalisation have blurred the distinction between international and domestic, external and internal affairs. According to Rosenau (1997: 4-5) globalisation has led to the growth of 'intermestic' affairs through the expansion of political, economic and social space in which fate of societies and communities are decided.

Interestingly despite the contending positions we can identify certain similarities in the theoretical positions elaborated. Firstly there is considerable normative divergence within the approaches, and none of them subscribe directly on to traditional ideological positions. Thus within the approaches we can identify neoliberals who welcome the triumph of individual autonomy and the market principle, as well as the radicals or neo-Marxists for whom globalisation represents the triumph of an oppressive global capitalism.

Secondly the approaches accept and recognise that states are increasingly adopting similar policies under conditions of globalisation; despite the differences

in their causal interpretation. The hyperglobalist framework recognises homogeneity in policy due to structural and global forces that render domestic political institutions emaciated. Similarly, the sceptics while championing the cause of national government also, do not reject convergence hypothesis. To them governments are not passive participants but on the contrary the primary architects of globalisation and play a central role in the regulation and promotion of cross border activity.

3. Policy convergence as an intermediate variable

The discussion in the previous section reveals that transformations consequent upon globalisation have implication for public policy as states increasingly adopt, voluntarily or otherwise, policies conforming to global norms. Such a development in public policy has been characterised as policy convergence. As such policy convergence constitutes an essential intermediate variable in analysing the relation between globalisation and public policy. Convergence is defined as any increase in the similarity between one or more characteristics of a certain policy (e.g. policy objectives, policy instruments, policy settings) across a given set of political jurisdictions over a given period (Knill 2005). The idea of policy convergence is an improvement over evaluating public policy against some ideal prescription which is often difficult to implement and hence locate. Rather it focuses on measuring the similarity of economic policy and outcome across comparative cases.

According to the literature on policy convergence the sources or pressures for convergence can be classified into three broad categories; specifically structural, political and ideational factors. The three broad categories of sources mirror the theoretical divisions concerning the relation between globalisation and public policy.

The *structural theorists*' similar to the hyperglobalist argument argue that globalisation leads to policy convergence due to the external environment that affects political units like international economy, international regimes, and multilateral agreements. Reforms are attributed to intensified economic competition, mobility of capital, technological changes and changes in production method that constrain autonomous actors such as states and limit their course of action (Mosley 2007).

The idea of *policy coordination*, on the other hand, contends that states continue to have some power over the market, and convergence is a conscious political choice. Policy convergence is explained through increased opportunity cost of isolation due to information revolution or similar but independent responses of different countries to parallel problem pressure (Downes 2004). Thus, convergence of policy is conscious policy coordination by autonomous nation states affected by the existence of bargaining actors and monitoring agencies.

The *World Society Approach* locates the source of policy convergence, not in any structural constraint but the realm of ideas. The source of such ideational change may be external or internal to any society. The impetus for policy consistency is from the spread of certain models and ideas through 'global cultural and associational processes'. Such global ideational norms are usually facilitated through global scientific discourse, international governmental organizations, mimetic emulation of states and increased the role of technocrats, scientists, academics and experts who act as a pathway to elite consensus (Knill 2005; Meyer 1997).

A critical reading of the literature reveals that policy convergence under conditions of globalisation may originate externally or internally, and adoption of policies may be imposed or voluntary. It is essential to clarify that such division is

purely analytical as in reality the dichotomy between external and internal or imposition and a decision is often unclear. According to mainstream literature the most apparent sources of policy convergence have been facilitation of trade and finance in the new global economic architecture. As such, the role of international organisations and treaty obligations is crucial in determining convergence. Similarly within states political factors also have a role in convergence such as political-ideological orientation of governments. Drezner (2001) has argued that policy changes in OECD countries have occurred under the influence of ideational forces and conscious choice of states rather than structural constraints.

The relative importance of the domestic and international factors in policy convergence appears to be affected by structural factors such as nature of the economy and their level of integration. Spatially, the pressure towards such policy convergence is especially acute in countries that are straddled with foreign debt and economic crisis reducing decision-making autonomy (Huber 1999). Similarly, policy convergence towards neoliberal economic policy is relatively indiscernible and unremarkable in the liberal market economies in comparison to welfare states. Thus, the divergence regarding the potential sources and mechanisms of policy convergence emanate from differences in economic, institutional and political conditions that characterise nation states.

4. Policy heterogeneity: determinants of convergence

Empirical evidence of convergence across the world has varied, and although there is movement towards some convergence in public policy, the pace and orientation of reforms has varied across states. Kim (2000) points out that the impact of globalisation has been dissimilar across different economies based on structural and economic factors. That is why at odds with the argument of policy convergence there exist literatures that doubt convergence and argue that national

heterogeneities remain in spite of globalisation. New institutionalism goes to the extent of challenging the general expectation of cross national convergence. It emphasises on significant differences in national institutions and opportunity structures and finds diverging rather than converging policy developments across countries (Knill 2005).

Critics of policy convergence point out that globalisation originate out of highly diverse national and regional politico-economic forces and as such institutional differences remain. Such an assertion is endorsed by a wide range of literature that attributes continued policy variation to institutional and political factors. For example, the Varieties of Capitalism literature points out the distinct differences in corporate governance, labour market, intercompany relations, labour relations and training between the Liberal Market Economies (that adopt greater free market policies with capital and labour market flexibility) and the Coordinated Market Economies (that have a free market with generous social security provisions) due to institutional comparative advantage and coordination (Hall 2001).

Similarly scholars working on the welfare state have also pointed out that policy convergence towards neo liberal minimum has not occurred uniformly and national specificities remain due to domestic political institutions such as the electoral system, legislature, and regime type. Welfare state scholar Pierson (2001) presents institutional impediments such as constitutional rigidity, electoral compulsion and unchanging employer preference and feedback loop as contributory to non-convergence on neo liberal policy prescriptions through path dependence. Likewise, Esping-Andersen (1990) and Garrett (2000) emphasise on political variables like ideology of party in government and show a general association of greater state control, extensive labour market regulation and economic closure with leftist parties and free market with neo liberal ideology.

The role of partisanship has been highlighted especially in the context of transitional economies marked by historical institutional legacy of state dominated developmental strategy. Commenting on heterogeneity in labour reforms across countries of Latin America between 1985 and 1998, Murillo (2005) point out despite macroeconomic pressures for convergence, partisan policymaking remains relevant. She points out that labor-linked parties used labor market regulation to keep labor supporters despite the regional convergence toward labor deregulation and partisan behavior is determined by political exigencies (Murillo, 2005: 441). As such political parties continue to adopt sectoral policies with concentrated effects on traditional supporters.

Thus varying degrees of convergence and policy output can be attributed to factors like historical trajectory of development, prevalent political system, structure of the economy, degree of openness, size of market, political and ideological orientation of rulers and political institutional factors (Kong 2006; Hensman 2001; Hall 2001).

4.1 Structural, Institutional and Political

The contradiction between literature on converge and heterogeneity can be theoretically resolved if we consider the existence of intermediate variables that mediate between forces of globalisation and policy outcome. The argument suggested is that pressure for convergence is mediated and influenced by a variety of structural, institutional and political factors that influence eventual policy outcome. Such an argument is reinforced by scholarship that finds greater convergence among states marked by similarity in institutional and cultural factors. It is argued that converging policy developments are more likely for countries that are similar in terms of economic, political or social structures (Knill, 2005).

Summarising the potential factors that affect policy converge under conditions of globalisation this dissertation identifies economic, institutional and political particularities affecting convergence. Thus, the factors that potentially determine the degree and extent of policy convergence have been broadly categorised into *structural, institutional and political determinants*.

The structural determinants refer to the wider environment that is beyond immediate influence or control of any particular political unit. It stands for underlying structures and organisations that are stable in the long run and significantly influence the constituent political units (primarily nation states). In the context of this research, structural factors imply structure of the international economy, nature of integration of the economy to the global economy, structure and organisation of the domestic economy, the position in world trade (exports and imports) and similar economic conditions. The importance of structural determinants is reinforced in most studies on policy convergence that suggest liberal economies are more integrated and better equipped to respond to constraints of globalisation (Garrett 1998a). The developing countries, on the other hand, have much weaker bargaining capacity and convergence appear to be the outcome of structural adjustment policy under guidance from donors and international agencies.

Institutional determinants refer to institutions such as policy framework, regime type, legal system, nature of party system that are relatively stable in the short run, but subject to greater control of domestic actors and conditions. Such factors not only mediate change but are often objects of change. According to Pierson (1996) the transfer and implementation of policy is significantly constrained by the rigidity of institutions. Empirically greater degree of convergence can be witnessed in countries characterised by high institutional similarity.

Finally, political determinants can be analytically distinguished as composed of interest groups, social networks, political parties and political agents who have a stake in public policy. These political agencies operate within the institutional and structural constraints but can alter the same through political action. Frieden (1996) and Rogowski (1989) have pointed out the importance of composition and preference of social groups in explaining policy heterogeneity. Cortázar (1998) has emphasised on the strength of trade unions in his explanation of labour reforms variation in South America. Theoretically, policies involving high distributional conflicts between domestic actors will converge to a lesser degree than policies with comparatively small re-distributional consequences due to the logic of democracy.

5. Globalisation and political determinants of convergence

The preceding discussion on globalisation, public policy and convergence suggests that the relation is not one of simple causality, and the outcome is conditioned by the dynamic interplay of structural, institutional and political factors. The extent of policy convergence or heterogeneity is determined by various factors such as economic structure, extent of integration, nature of regime, political framework, relative strength of interest groups, partisan orientation that mediate a multi-layered process. To put it in other words the pressure for convergence can emanate from external (international actors and the economy) as well as internal (domestic actors, ideas) and the extent of convergence is determined by the interaction of structural, institutional and political variables. Hence, even if globalisation exerts some constraint on states, the exact nature or content of transformation is conditioned by relevant political agencies and socio-political institutions.

As an endeavour in political economy, this research seeks to understand the impact of political agency in the determination of policy convergence. The choice of political variables is driven not merely by disciplinary orientation, but also a necessity as interaction between politics and economics constitutes a critical area of research. Much of the analysis on convergence or heterogeneity is based on cross national experiences of developed economies and highlights the role of historical institutions such as political framework, nature of economy, nature of business organisations as being responsible for policy variations. The experiences of economic reforms in transitional economies under globalisation and specially the role of political actors have remained relatively understudied. This research seeks to redress such an imbalance through an analysis of policy convergence in a transitional economy from a political actor based perspective.

The analysis of political dynamics of policy convergence also contributes to the literature on reforms as globalisation was heralded in transitional economies through economic reforms. Analysing the role of political actors and variables in policy transformation contributes towards a more comprehensive understanding globalisation and politics. Such an exercise can potentially reflect on the domestic constituencies of support for particular policies and provide a more nuanced political-economic analysis.

The underlying argument for such an approach is to bring back the role of political agency in the increasingly structural understanding of economic reform. The choice of policy by government in a democracy is not only influenced by structural factors and institutional dynamic but also by the constant interplay between various relevant social interests. Public policy is shaped not merely by economic concerns but also political processes, institutional framework and ideational elements such as electoral considerations, political ideology, and configuration of social interests which need to be considered in an analysis.

In order to evaluate the influence of political actors and processes on policy, this research looks into the specific case of labour market reforms across sub-national states of India. The choice of labour market for study is due to the importance of labour as a factor of production as well as a socio-political group with the potential to resist reforms. Naturally labour reforms constitute a serious agenda of research from the political-economic perspective.

Chapter 2

Globalisation and Labour Market Reforms

1. Globalisation and labour market

Labour market reforms have been a contested terrain across the world which from an analytical perspective constitutes an agenda of political research. As Cook (2006) notes, labour reforms have been one of the most contested and widespread aspects of economic policy changes.

The importance of labour in policy analysis stems from its unique position as an economic factor as well as a political actor. Characteristics of the labour market such as bargaining coverage and employment protection legislation have significant consequences for product market interventions. The structure and forms of labour market have implications for employment, wages and overall growth. Further labour market has significant ramifications for the overall economy and serves as an important transmission mechanism of resources to the poor (Horton 1994). That is why most literature considers labour market reform as a crucial component of second generation reforms.

Moreover, labour is not only a resource of production but constitutes a prominent social group capable of political manifestation. Across the world, labour reforms have been difficult to implement as working class is a powerful constituency with potential to resist reform (Przeworski 1993). Scholars such as Horton (1994), and Rueda (2007) that point out role of organised labour in impeding economic reforms.

Thirdly labour market and industrial relations structure the inevitable and recurring conflict of employment relations. In short, the labour market is the site

of interaction between capital and labour and reflects the existing balance of power between relevant social forces.

The importance of labour reforms in political economic analysis is augmented by the peculiarity of the process. As a contested and challenging aspect of reform, most labour reforms have either been stalled or '*reform by stealth*'. Even though, the extent of reform in labour markets has been relatively low compared to product market, labour policy transformations constitute one of the most dynamic, challenging and political dimensions of reform. The study of labour reforms across Indian states reveals how reforms have progressed much more at a subterranean level through administrative fiat rather than formal policy transformation.

Thus, labour market has significant economic and political ramifications and provides a site for conflicts over political and economic changes under conditions of globalisation. The inherent public character of labour reforms and political-economic ramifications make it a matter of serious interrogation. It provides an excellent opportunity to evaluate the role of political agencies in determining policy and outcome under conditions of globalisation. An important aspect of such a study is in locating the level of decision making in a multilevel polity. Decisions regarding economic reforms in large transitional economies are often difficult to locate as much of the reforms take place at the level of practice rather than policy.

This chapter broadly introduces the academic debates regarding the impact of globalisation on labour. It elaborates the debates about labour reform, without taking any explicit value position and defines reform through the idea of flexibility.

The chapter provides a framework of analysis through an index of labour flexibility to measure the extent of reforms. The proposed index contributes to a more quantifiable and comparable measure of labour conditions.

1.1 Globalisation and labour: theoretical arguments

The dynamics of policy convergence is most visible in economic matters, and labour market constitutes a significant political-economic issue within overall reforms. As Mazumdar (2008: 5) points out *'the impact of economic growth is delineated through the labour market, and any predictions about the impact on poverty and inequality must be based on some implicit or explicit view of the structure of labour markets and their functioning'*. Similarly, Davidson (2000) has argued that the structure of the factors market has a significant bearing on the way resources are allocated and the speed with which the economy reacts to policy change. As such the cost and benefits of trade reform may vary according to labour market flexibility. Moreover, labour is not only an economic agent but also a constituent of the political society. Thus within the broader question of domestic consequences of globalisation, labour occupies a crucial position and the outcome of economic reforms is significantly influenced by developments in the labour market.

According to mainstream globalisation discourse, liberal trade and deregulation is beneficial for economic growth and welfare as it ensures optimum resource allocation. Thus, labour market flexibility is not only desirable but also necessary for overall growth and welfare. The conventional relation between globalisation and labour propagated by the IMF, WB and WTO emphasises the benefits of liberalisation by expanding export market, greater industrialisation and lowering consumer prices (Davidson 2000). Accordingly labour as a factor of production and a consumer in the market is claimed to benefit from flexible

market ensuring not only effective allocation and efficient wage rate; but also from the competitive market which brings prices down.

The impact of globalisation on labour can be disaggregated into employment, wage, work condition and labour rights. The relationship between trade and labour has been theoretically explained by the Heckscher-Ohlin-Samuelson (H-O) hypothesis. The theory claims that, with free trade, capital abundant countries will export capital intensive products and labour abundant countries will export labour intensive goods. Derivatively, the theory predicts an increase in demand for labour in capital intensive industries in industrialised countries and labour intensive production in developing countries. Thus, abundant factors of production will be utilised optimally (including labour) leading to increasing real returns (O'Rourke 2006). The 'factor-content approach' similarly associates increasing real returns to labour due change in trade pattern (Kapstein 2000).

However empirical evidence of the relation between globalisation and labour has been at best mixed. A report on labour reforms and economic growth in Latin America casts doubt on the negative relation between strong labour standards and employment growth. The report argues that macroeconomic stability is more important for job creation than institutional factors and flexibility in labour market may reduce the competitiveness of industry due to low compensation and little training (Tuman 2000).

Theoretically the H-O model is based on certain assumptions such as competitive markets, full mobility of factors, inelastic supply of labour and capital, long time scale which are difficult to fulfil in real terms. Moreover, the labour market is not homogenous with the existence of skill difference and informal-formal dichotomy. Also, as, Slaughter (1997) has pointed out economic theory does not consider the impact of technology in such a trade-labour relation and

hence fails to explain empirical evidence of decreasing price of skill intensive production relative to unskilled labour intensive industries in advanced economies.

In this respect, the model developed by Edwards (1988) of a small open economy with two factors (labour and capital) and three goods (exportable, importable, non-tradable) yields different predictions for the impact of trade on employment and wages. According to the theory a developing country after reducing barriers to trade, would experience a fall in demand for goods produced in the formal sector (due to cheap imports) resulting in a drop in employment in this sector. Employment in the exportable sector is predicted to increase while the effect on wages in this sector depends on the assumption regarding wage rigidities. The response of the informal sector hinges on whether it specialises in the production of tradeable or non-tradeable commodities. The brief discussion reveals a lack of unanimity among scholars on the impact of globalisation understood through free trade on labour.

The sundry impact of globalisation on labour can also be identified in issues of work conditions and labour rights. The mainstream globalisation discourse suggests that greater trade and foreign direct investment (FDI) will lead to greater welfare of workers and ensure their rights. Multinational corporations, nongovernmental organisations, emulation of global standards would lead to better work practices and conditions for workers (Bhagwati 2004). However scholars like Drezner (2001) argue that FDI negatively affects labour rights as countries in their effort to attract FDI relax labour laws and reduce social spending.

1.2 Globalisation and labour: empirical evidence

The divergences in theoretical assumptions are compounded by mixed empirical evidence. In most economies although liberalisation has corresponded with increasing employment in the export sector, it has led to reduction of

employment in the import and non-tradeable sectors of the economy. Rama (2003) in a large scale comparative study finds that the impact of economic reform on economic growth and employment is positive on a long run, but in the short run it increases unemployment. Similarly, Rodrik (1997) has found that impact of globalisation on labour has been heterogeneous and argues less skilled workers with lower paying jobs have '*borne the brunt of the adjustment*' due to internationalisation of trade and investment.

Another important aspect of labour relation concerns changes in the work condition and employment practices. Bulk of the employment opportunities created due to restructuring of markets and production system tend to be flexible (irregular and casual) in nature as a means of achieving cost efficiency. The increasing currency of flexible labour is considered a function of the changing production process often termed as '*post-fordist*'. Such a trend has led to the expansion of the informal economy and the progressive elimination of the formal and informal dichotomy in the labour market (Sato 2008). Although reform advocates propagate the idea of flexicurity (flexibility and security) whereby workers will have the option to choose to work when they want, where they want, to critics it is simply a ploy to make the workers more vulnerable.

In terms of work condition and rights under conditions of globalisation, empirical evidence is also somewhat mixed. FDI inflows have been found to improve work condition and wages for a certain category of workers while competition for investment and trade is found to increase labour flexibility. According to Garrett (1998b), FDI improves work condition, labour rights and skills through transfer of best practices and technological up gradation in the relevant sectors. However, there is also evidence of deteriorating labour conditions due to competition for investment and pressure from MNC's (Rodrik 1997). Acknowledging the dual impact of globalisation on labour Mosley (2007) claims

that FDI has a positive impact on work conditions while trade competition has a negative impact (race to bottom) on labour rights.

Thus, liberalisation is likely to affect different economies and sectors differently, and the relation between globalisation and labour is dependent on factors such as composition of the domestic economy, composition of exports and imports, institutional framework and so on. As such economic restructuring consequent upon globalisation would involve job loss (with outsourcing, industrial demand shift) along with job creation (with investment) with altered work condition depending on the level and nature of economic integration. The outcome is not purely determined by structural intricacies, or the institutional framework and policy choice are likely to influence such a process. The importance of public policies in determining labour market outcome brings into consideration factors such as trade unionism, partisan orientation that significantly influence policy choices and outcomes.

In any discussion on the relation between globalisation and labour especially in transitional economies, Latin American countries provide valuable case study. Examining patterns of inequality and employment in labour markets across Argentina, Chile, Costa Rica, Dominican Republic, Guatemala, Mexico, and Venezuela since 1980's Tardanico (1997) points out that extent of reform in public-sector has been uneven. The volume points out that, despite variations, all economies are marked by a rise in precarious employment, losses in real wages, rising levels of unemployment, and decreasing implementation of labour rights and standards.

2. Labour market flexibility: theoretical arguments

As a theory, neoliberal economics contends that free play of market forces results in employment of resources at the market-clearing prices that lead to both

efficiency (*as almost all resources are employed*) and equity (*all are rewarded according to their marginal contribution*). Regulation of the market by the state leads to deviations from full employment of all resources. Although the necessity of some restrictions for safeguarding the interest of labour is accepted, labour market rigidity constrains free play of the market and is detrimental for economic growth by limiting employment generation and wage (Fallon 1993; Besley 2004).

Interference by collective institutions (*law and trade unions*) in market processes increase transaction costs and cause loss of investment, welfare and employment. These institutions raise wages, impede adjustment of labour and result in “inequity” by protecting the interests of “insiders”, against “outsiders” who thus remain unemployed. Hence, in the case of labour market, trade unions and protective labour legislations are said to be market-distorting agents, which curtail the free operation of market forces to ensure optimal utilisation of labour.

Besley and Burgess (2004) in their study found that protective labour legislations in India on an aggregate level had an adverse effect on industrial output and employment generation in the manufacturing sector. Their study indicated that laws that increase cost of labour disputes or retrenchment result in significant decline of employment and output. Also, they also point out that inflexible labour institutions lead to decline in investment rate and capital stocks. Similarly, Schneider (2004) points out that most studies reveal that tax and social security contributions paid by employers and employees and regulations are one of the main factors behind the presence of a shadow economy which has consequences for formal sector growth.

Critics argue that the state and its regulations are safeguards against an impersonal market that can fail any time. Emphasising the virtues of social control, many economists and political activists argue that labour institutions are safeguards ensuring equity, qualitative improvement and industrial research (Wilkinson 1992).

The advocates of regulation argue that competing firms are forced to be enterprising and technologically advanced only when the option of reducing unit costs by lowering wages and labour standards is barred. In fact, the absence of a minimum floor of labour standards would inevitably lead to the syndrome of low wage and low productivity. There is also a demand side argument for labour regulation. Significantly protected labour expands demand in the market and thus expands growth as well as employment. The criticism against free market is also directed at a broader level over issues of equity and distributive justice (Chandrasekhar 2000).

Thus, academics and policy makers appear to be divided into opposing camps on the issue of labour market regulations and institutions. According to the “*distortionist*” view, regulations impede adjustment of labour and act as obstacles to growth and employment because of inefficient allocation of resources. The “*institutionalist*” on the other hand, argue that labour regulations fulfil vital redistributive roles in a market economy, provide necessary insurance from adverse market outcomes and create desirable pressures on employers to focus on the enhancement of their labour productivity (Jha, Golder et al. 2008). Significantly protected labour expands demand in the market and thus leads to growth as well as employment.

2.1. Variations in labour market flexibility

Even as, scholars differ on the exact inter relation between globalisation and labour and economic implications of policy choice remains inconclusive, changes consequent upon globalisation appear to pressure for homogenisation of policy on grounds of competition, economic growth and creation of employment. At a macro level states increasingly promote employment flexibility and relaxation

of labour laws to facilitate the global shift towards greater market reliance in spite of critics expressing concern.

Available evidence on contemporary labour market suggests increasing casualisation and flexibility through sub-contracting, employment of casual workers and shrinking space for organised labour mobilisation. Even the International Labour Organisation report on globalisation suggests that liberalisation has led to persistent unemployment, growth of atypical employment or underemployment, decline in permanent employment and reduced wages and job security for many (International Labour Office. 2004).

Interestingly despite the homogenising tendencies in labour market under conditions of globalisation there continue to remain identifiable differences across economies. There exist considerable literature that highlights continued divergences in the labour market of OECD economies such as Germany and Sweden.

Even in transitional economies such as countries of Latin America labour market reforms have varied. Cook (2006) in a comparative study of six Latin American countries shows that despite common pressures for flexibility labour reform outcomes varied due to differences in legal and institutional frameworks, trade union-political party linkage and the relative strength of labour organisations. In elaborating the variable organised labour strength factors such as the intensity of labour preferences, extent and nature of organisation and party link emerge as crucial intermediate variables (Madrid 2003). Interestingly, wider political dynamics such as electoral prospects of political party have also found a place in explanation for regional variation. It is argued that incentives generated by political uncertainty often lead to reforms that contradict the regional trend toward deregulation as competition by credible challengers dissuaded politicians from adopting policies deemed necessary to attract capital inflows (Murillo 2009).

Thus, globalisation exerts pressure for increased flexibility in the factors market including labour market on the argument of competition, economic growth and creation of employment. However the impact of globalisation when viewed at the local level suggests significant differences due to structural, institutional and political variables that are specific to regions. The global scope of labour reform must not conceal the local realities of labour that make reforms distinct and contested. The regional specificities such as nature of integration with the global economy, nature and extent of trade, institutional factors like regulations and political variables like reorganisation of class interests, political parties determine labour reforms by mediating policy convergence.

3. Flexibility as a labour market condition: theoretical discussion

As the discussion in the previous sections reveal, the concept of flexibility is central to analysis of contemporary labour market reforms. Flexibility not only illustrates a particular normative objective but also provides an analytical category to compare the extent of policy convergence in respect of labour market reforms. As such, it is instructive to discuss the idea of flexibility and highlight some of the key features as outlined in the literature.

Labour flexibility in its ideal form propagates free operation of forces of demand and supply to ensure optimal allocation and factors that impede such operation like regulations, trade unions are considered impediments to flexibility. Conventionally the concept of flexible labour market includes flexible payment, increase in productivity through change in the production process, cutback in social benefits, differential pay scale and relaxing or altogether removing legislative and regulatory framework. Such a labour market according to supply side economics would be efficient and competitive through the free play of market forces.

The issue of labour reform gained prominence during 1960's and 1970's, in the context of macroeconomic stabilisation, when focus of policy makers shifted from general unemployment issues to efficient allocation of productive resources (Mathur 1994). Such an ideational change was accompanied by technological revolution that led to a gradual shift from fordist mass production to post fordist models of customised production. According to Piore and Sabel (1984) such a structural changes in capitalism naturally led to change in work organisation, work method and skill profile. In the context of the developing countries, the concept of labour market reform and flexibility has been part of broader structural change initiated during the 1980's (Sarfati 1988).

The simplest definition of labour flexibility is provided by Solow (1998) who contends that flexible labour market is '*one that interposes no obstacle to the frictionless matching of an unfilled job and an unemployed worker with the appropriate*'. Although Solow agrees to the necessity of some regulation, he contends that degree of flexibility is to be measured in relation to ideal of absence of regulations in the labour market. Hence flexibility can be viewed through presence or absence of certain characteristics in the labour market.

Standing (1986), on the other hand, views flexibility in terms of certain qualities like technical division of labour, the structure of jobs, work organisation and forms of payment. He points out flexible labour practices within firms through the shift from progressive to static jobs, narrowing job content, reduction of on the job training, growth in casual employment, relative absence of regulations that determine the operation of labour market.

Approaching the concept of labour market flexibility from the perspective of company strategy Atkinson (1984) points out three main types of flexibility, namely, *numerical, functional and wage flexibility*. According to Atkinson, *numerical flexibility* may be classified into *external and internal*. While external numerical

flexibility refers to adjustment in the number of workers employed through relaxation of Employment Protection Legislations or employing contractual workers; *internal flexibility* aims at adjustment of work time of labour through measures such as flexible shifts, overtime etc. *Functional flexibility* refers to the extent employees can be transferred to different activities or departments. This is achieved by measures such as employee multi-tasking, outsourcing activities. Finally, *financial or wage flexibility* refers to condition in which wage levels are not decided collectively, but according to rate-for-the-job systems, or assessment based pay system, or individual performance wages.

Sarfati (1988) attempts a round-up of the concept of labour market flexibility and identifies labour cost, employment security, work time and work organisation as the four dimensions of flexibility. The presence of political and institutional variables that impede the free adjustment of these four dimensions indicates an inflexible labour market and vice versa. However, such an interpretation is limited due to lack of clarity in so far as it does not elaborate the variables that prevent flexibility in the four dimensions.

In this context, Kong (2006) provides a comprehensive definition of labour market flexibility. According to him a flexible labour market can be characterised as one with flexible labour employment, performance based remuneration, variation in intensity of work according to market, increasing proportion of casual labour and scaling down some instruments of economic regulation in favour of more flexibility in bargaining rights, employment security, wage and benefits for labour. The definition emphasises on the regulatory as well as qualitative aspects of labour market and provides unambiguous categories against which market conditions can be evaluated at a macro level.

Despite the comprehensiveness in defining labour flexibility, Kong (2006) fails to point out that flexibility is essentially a process to facilitate the

accumulation of profit by capital. An important point about flexibility often glossed over in theoretical literature is that flexibility fundamentally attempt at numerical, process and cost flexibility for enterprises to increase accumulation. Adjustment of labour to market signals is a part of the process which may be aided by allocating greater decision making power to the market or even state. That is why Harris-White (2003) has pointed out that the proper way to understand flexibility is to comprehend the nature of accumulation in an economy. However locating the exact nature and operation of the accumulation process requires micro studies of the production process not amenable to macro comparative studies.

Thus at a basic level, labour market flexibility is greater decision making power for employers, to adjust the quantity and price of labour according to market signals. As such flexibility can be viewed as relaxing or altogether removing legislative and regulatory framework while businesses worked towards new forms of work organisation, employment contract and bargaining. This dissertation, given its objective of macro comparison, considers labour market flexibility through *flexible labour employment, flexibility in remuneration and wages, relaxation in instruments of economic regulation particularly employment, wage, industrial relation regulations and variation in intensity and functions of labour according to market signals.*

The various definitions of flexibility have an empirical basis as different economies are characterised by different kinds of flexibility depending on economic and political specificities. Kong (2006) has pointed out that in Japan reforms have been more towards functional and wage flexibility while retaining the bottom line of secure employment for a smaller number of privileged workers. In contrast, the newly industrialising East Asian economies such as South Korea and Taiwan have aimed at numerical flexibility in large enterprise sector of the economy as numerical flexibility already existed in the small and medium enterprise (SME) sectors.

3.1 Flexibility as quantitative variable: measuring flexibility

The discussion in the previous section reveals that flexibility is both a quantitative as well as qualitative condition. As such, any effort to evaluate or measure flexibility is dependent on the context of study and choice of indicators. A survey of literature on labour market flexibility reveals that diverse variables reflecting the different aspects of labour flexibility have been used to quantify and qualify flexibility.

A dominant approach to analysing labour market flexibility has been to assess the labour market regulation against some ideal neoliberal prescription or the International Labour Organisation framework of labour rights. Rama (1995) has evaluated labour market rigidity for the Latin American countries on the basis of qualitative classification of labour regulations. He categorised regulations with the lower bound reflecting a position close to perfect competition and the upper bound reflecting the greatest degree to which the regulation distorts the market. He uses regulations such as number of ILO ratifications, annual leave with pay, maternity leave in days, social security contribution as a percentage of wage, government employment, minimum wage, severance pay and unionisation. Similarly, Marquez (1998) has constructed an index of employment protection with components of labour regulation like length of probation period, advance notice period, cost of dismissal, reinstatement of worker and cause of dismissal.

Although instructive, such measures of flexibility suffer from inherent weakness as they do not consider the actual operation of labour market. Theoretically any measure of labour flexibility can be based either on the absence of regulation or thorough evaluation of conditions that signify flexibility like wage and employment structure. The limitation of measuring flexibility purely through regulations is that it ignores actual operation of labour market in terms of wage structure or casual employment.

Further most of the measures constructed have been on the basis of experience of OECD and developed economies with well-developed institutions and state capacity. In contrast, most developing states are characterised by duality of informal and formal sector and ‘restricted state capacity’ implying a gap between regulation and their implementation. As such implementation data on labour regulations need to be assessed to analyse the extent of flexibility. Moreover, the differences in institutional and political setting of labour markets are manifested differently in the wake of liberalisation or ‘withdrawal of the state’ in developed and transitional economies.

As such, there exists a necessity to create a measure of labour market flexibility which can be amenable to the developing economies and sub-national comparison. The construction of such a measure is constrained by the lack of data pertaining to wage structure, internal work practices of industry as well as incomparability of data due to methodological and ideological differences in data collection. For example, data on some of the indicators used to measure flexibility such as annual leave with pay, universal minimum wages, probation period are not readily available in most developing economies due to lack of uniform industrial development. Thus, measures of labour market flexibility should ideally be specific to national economies to account for the specificities in the labour market.

4. Measuring labour market flexibility: an alternative index

The index presented is constructed for the specific purpose of sub-national comparison of labour flexibility in India. As such, availability of data and the specific political-institutional setting has determined the choice of variables. Also, worth noting is the fact that flexibility in India has been practiced de facto as India’s record in enforcing labour laws has been quite dismal. As Forteza (2001) has pointed out labour laws scenario in India is most rigid on paper but most flexible in practice. As such data on implementation of labour laws is necessary to

capture the extent and scope of flexibility. The proposed index of labour flexibility thus attempts to incorporate not only regulatory aspects of labour market but also actual operation of labour market in India.

As the discussion in the preceding section suggests, flexibility may be classified into, internal and external dimensions. Although internal labour market reforms have a significant bearing on flexibility and constitute an actual site of flexible labour practice, this measure does not consider it as a component of analysis. The reasons are twofold. Firstly, it is assumed that within a national economy industrial work processes, job content, and wage structure develop along similar lines across states. This is due to natural laws of economics and through processes such as emulation of best practices, uniform industrial regulations, similar institutional settings and other mechanisms. Secondly the scope of the study does not warrant a micro level analysis as it focuses on the aggregate level especially the manufacturing sector.

The specific measure of labour flexibility suggested incorporates; *i) data on casual, temporary workers, ii) evaluation of labour regulations on wage, employment, industrial relation, work conditions and trade unionism, iii) implementation of labour laws, iv) data on wage and wage share, v) data on closure and retrenchment.* The sources for the data utilised in the measure are primarily derived from *Annual Survey of Industries; Statistics on Closure, Retrenchment and Lay Off; Indian Labour Yearbook; National Sample Survey Organisation* and data on employment and unemployment published by Government of India. The data on regulations and their amendments is collected from the law books. Also, the minutes of various sessions of Indian Labour Conference have been used to determine the position of State and Union Governments on various labour issues. Finally, some secondary data is used for implementation of labour laws in the various states for which due credit and citation is provided.

4.1 Index of labour market flexibility

Based on the theoretical framework discussed, the index of labour market flexibility to compare and contrast sub-national labour market in India has the following components;

1. *Data on casual, temporary workers:* Casualisation of work and labour has been one of the foremost features flexible labour markets (Ahsan 2006). A casual or temporary worker has no job security or limited job tenure, extremely narrow and static job content, practically no social security benefits and lower wages compared to regular worker. Hence contractual worker represents a flexible labour market with limited liability for employers. The dissertation considers the data on the proportion of contractual worker to total workforce available in the Annual Survey of Industries published by Ministry of Statistics and Programme Implementation, Government of India.

2. *Data on Regulations:* Given the federal framework of India, labour laws are framed both by Union Government (applicable to whole of India) and the sub-national state governments. The measure considers the key laws and their subsequent amendments that have an impact on wage, work condition and social security. In this index, the main laws considered are i) *wage regulation: Minimum Wages Act 1948 and Payment of Wages Act, 1937*; ii) *work regulation: Factories Act 1948 and Contract Labour (Regulation and Abolition) Act 1970*; iii) *social security: Employees State Insurance Act 1948 and Workman's Compensation Act 1923*; iv) *industrial relation regulation: Industrial Disputes Act 1947 and Trade Union Act 1926*. These laws have been framed by the Union Government, and as such the broader framework is similar across sub-national states. However sub-national states can modify and amend such laws to suit their particular ends. As such amendments to labour regulations at the sub-national level are important measures of variations. The index classifies regulations through a careful reading into pro labour, pro employer,

neutral and pro state. The classification of regulations adopted in this dissertation improves and builds upon the analysis of Besley and Burgess (2004) who classify Industrial Disputes Act 1947 into pro labour, pro employer and neutral for each amendment. This dissertation not only considers wider set of laws but classifies amendments into pro employer, pro-labour, pro state and neutral.

3. *Data on labour law implementation:* The reform by stealth hypothesis contends that one of the processes of backdoor reforms is through informal deregulations and non-implementation of regulations (Jenkins 1999). Also, there exists literature on state capacity to emphasise the importance of institutional factors like bureaucracy in determining the success or failure of any policy (Rodrik 2007). The data on labour law implementation reflects the capacity of state to implement policies and also partly the intention to implement labour regulations. Data on implementation of Minimum Wages Act and Factories Act is selected for analysis as they have the widest scope in terms of implementation. Minimum Wages Act applies not only to specific industrial mentioned in the schedules but set the base wage for the economy affecting both formal and informal sectors. The Factories Act is applicable to all productive units in the formal sector of the economy.

4. *Data on wage and wage share:* Flexibility in wage constitutes an integral part of labour market flexibility. However it is difficult to get any comprehensive measure of wage as organised sector wage is distinct according to industry and usually more than the minimum wage. To compound the problem data on wage and wage structure is not readily available. As such a comparison of share of wages to the total value, added is considered in the analysis. Wage share reflects the relative share of labour in total value produced. A flexible labour market should be characterised by very low or decreasing wage share.

5. *Data on closure and retrenchment:* Data on industrial closure and retrenchment is indicative of labour market flexibility as prevalent industrial relations regime requires prior government permission for closure or retrenchment. The removal of prior permission clause has been one of the main demands of business to allow quick adjustment of labour (Ahuja 2006). However, the data reported in Indian Labour Yearbook is at best suggestive due to large scale under reporting. Shyam Sundar (2008) has pointed out that such data is hugely under reported and in spite of restrictive provisions and union resistance restructuring has been taking place since 1980's.

The index suggested is complementary to the existing measure of labour market conditions in India formulated by Shyam Sundar (2008a). He has created a relative measure of labour market regulation based on labour judiciary, union presence, labour strife, scheduled employment covered by Minimum Wages, Average Minimum Wage, Inspection of Shops and establishments, Average labour cost per manday worked and state level industrial relations. The suggested index of labour market flexibility compliments the existing measure as it focuses on the labour market condition rather than regulation. It is worth noting that there exist robust correspondence between the two measures and states with higher regulation come out to be most inflexible in analysis and vice versa.

In conclusion, it is necessary to mention that construction of any measure is constrained by the availability of data. In the contest of labour particularly in India, the situation is difficult as data is limited and there is the problem of variation between records of different department and levels of government. For example, data on the number of strikes would vary in records of the State Government and Union Government. Such differences are the outcome of different approaches to collect data, lackadaisical attitude of officials and often suppression of data. Comprehensive regular data on labour is available only regarding the organised

sector and even then the scope is very limited. The ASI data covers only firms under the Factories Acts, and noncompliance or fudged records are rampant. As such, the index of labour market flexibility suggested is at best reflective of broader trends and not the exact quantification of flexibility.

5. Conclusion

The discussion in this chapter reveals that, advocates of free trade urge increased deregulation to remove all “*distortions*” in the factors markets leading to optimal allocation. Consequently, since labour is a factor of production, globalisation discourse propagates increased flexibility and deregulation of labour market. The concept of flexibility at the theoretical level includes both qualitative and quantitative aspects and hence subject to interpretations.

The chapter provides a comprehensive categorisation of labour market flexibility defined through casual, temporary workers, extent of regulations, employment flexibility, wage and wage share, closure and retrenchment. The index of flexibility presented contains both qualitative and quantitative variables which leaves potential for disagreement. However, in defence of such a measure, it should be that purpose is to put forth certain indicators in a coherent manner to quantify labour market flexibility

The theoretical overview of labour reforms in the context of globalisation, point out two important things; firstly contrary to economic theory the outcome of reforms across countries has not followed any unilinear trajectory of growth and welfare. In fact, available records on condition of labour since the onset of globalisation have been mixed if not dismal for labour (International Labour Organisation. 1997). Such an assumption exposes the inadequacies of existing neoliberal theory on the impact of globalisation on labour.

Secondly the impact of globalisation on labour is consequent upon the overall structure of the economy (*organisation and composition of exports /imports, participation in the global economy*), technology of production, organisation of the labour market (*informal/formal, internal labour market*), impact of multinational enterprises, and institutional factors (*laws and regulations*). The impact of globalisation on labour and labour market is conditioned not only on the level of economic openness but also on the precise ways in which a country participates in global production networks as well as political institutional settings such as regulations, trade unions (Mosley 2007).

Chapter 3

Autonomy of politics: political agency as determinants of reform

1. Relevance of political agency

The discussion on globalisation, policy convergence and labour market provides the theoretical framework to interrogate the relation between globalisation and labour reforms. Policy convergence in labour market under conditions of globalisation is determined by structural, institutional and political factors which share a complex inter connection beyond simple causality. As Sarfati (1988) has pointed out although there is a general move towards greater labour market flexibility, the method of achieving flexibility varies according to the economic, social and institutional context. Thus under conditions of globalisation labour market policy and the outcome is influenced by political actors like trade union, government and business; institutional factors such as laws, inter-firm coordination, trade obligation; and structural factors like nature of economy, informal-formal division, extent of integration.

The dissertation seeks to evaluate the impact of political factors in determining labour market reforms. The role of political agency is a crucial issue of research because of the relative neglect of political actors in explanation of policy variations under conditions of globalisation. This chapter outlines the research hypotheses regarding political factors in determining labour market reforms. However before discussing the hypotheses in detail, it will be instructive to discuss some of the existing theoretical arguments regarding labour market reforms.

2. Competing explanations for divergences in labour market reforms

A survey of available literature on reforms point out that although labour relations in different states reveal a shift towards flexible, competitive and

deregulated labour market, such a shift has been quite heterogeneous in nature such as labour reforms in Germany, Sweden and Norway in contrast to United Kingdom or South Korea (Pierson 2001; Kong 2006). In short, despite homogenising pressures under conditions of globalisation there exists no unilinear trajectory of development in the labour market.

Explanations for continued heterogeneity in the operation of labour market have often emphasised on structural features of the economy and institutional rigidities as being responsible for non-convergence towards neo liberal consensus (Alvarez 1991; Hall 2001). An eminent theoretical contribution in this regard the *Varieties of Capitalism* literature argues that differences in corporate governance, labour market, intercompany relations, labour relations and training between the Liberal Market Economies (that adopt greater free market policies with capital and labour market flexibility) and the Coordinated Market Economies (that have a free market with generous social security provisions) are due to institutional comparative advantage and coordination. Hall and Soskice (2001) argue that divergences in labour relation can be explained through the organisation of the national economy which structure incentives for coordination of relevant interests specifically labour and business. Thus, the organisation of economy specifically coordination between firms appear to be explanatory variable.

Another dominant interpretation for labour market variation is the *institutional rigidities argument* that is derived from the welfare state literature. It is argued that the continuation of the welfare state and consequent labour market rigidity in many OECD economies are primarily because of path dependence and institutional rigidities. Economic and political institutions that characterise states are historical products of specific socio-cultural or politico-economic dynamics and as such diverging sets of institutions that regulate the welfare state creates hurdles against their own alteration (Pierson 2001). Scholars such as Rogowski (1987) and

Rodrik (1997) have also emphasised on regulations and institutions of government as an important influence on the outcome of the reform process.

Although valuable in terms of analytical contribution, an inherent weakness of such institutional and structural interpretations has been their relative neglect of political agencies like socio-economic groups and political parties. There is literature that highlights the role of political parties in government as responsible for policy variations. Emphasising on political variables Garrett (2000) and Esping-Andersen (1990) show a general association of greater state control, extensive labour market regulation and economic closure with leftist parties and free market with neo liberal ideology.

Differences in reform have also been attributed to the composition and preference of social groups (Frieden 1996; Kong 2006) and specifically labour market reforms to the relative strength of labour movement (Rudra 2008). Similarly nature of the party system has emerged as a potential explanation as countries with fragmented party system are argued to find free market reforms challenging due to the greater number of bargaining actors or veto players (Roubini 1989; Tsebelis 2002).

Following the classificatory scheme introduced in the previous chapter on determinants of policy convergence, we can classify the variables of labour market reforms into structural-historical, legal-institutional and ideological-political variables. This dissertation focuses exclusively on ideological-political variables that influence reforms. The political variables can be analytically distinguished as composed of socio-economic interests with a stake in the policy such as government and its institutions, political parties and relevant interest groups. In the specific context of labour market, the three main political agencies are trade unions, business and political parties that interact within specific structural-institutional environment to influence government and public policies.

2.1. Explanations for sub-national variation in reforms

Political agency based explanation for variation in reforms has been a dominant theme in sub-national study. In such literature nature of party and interest group dynamics have emerged as prominent causal variable. For example in the literature on sub-national variations in labour market reforms in India, the nature of party in power has been the dominant explanation. It is argued that greater labour reforms in Gujarat is due to rightist Bharatiya Janata Party (B.J.P) in government while in West Bengal left party government has ensured low reforms.

Some others have identified the strength of organised interests such as labour and distinct political culture of the states as being responsible. Differences in strength and historic presence of organised interests have been held responsible for reform variation. Historically Maharashtra and West Bengal were under direct colonial rule and sites of initial industrial development. Gujarat and Andhra Pradesh came in to existence only after independence and linguistic reorganisation of states in 1960s. Such differences in historical origin have often been held responsible for differences in political culture accounting for variation in labour and other social movements.

However such party based explanation appear limited due to its inability to account for the divergences in states such as Andhra Pradesh or Maharashtra where ideological polarity on reform issues between main parties (Congress party and BJP-Shiv Sena in Maharashtra and Congress and Telugu Desam Party in Andhra Pradesh) is unclear. Further programmatic differences between parties as an explanation for variations also fail to account for state level differences between parties such as Congress and BJP in Maharashtra and Gujarat. Gujarat is marked by political contestation between B.J.P and centrist Congress party while Maharashtra is characterised by political competition between Congress-NCP and B.J.P-Shiv Sena alliance. Despite the similar nature of parties in competition,

variations across states in reforms poses questions about simple party based explanations. The strength of organised labour across the states does not seem to correspond to the levels of labour flexibility in the case of Andhra Pradesh and Maharashtra.

Thus existing political actor based explanations for reforms variation, particularly in the case of labour market suffer from limitations which necessitate further research.

3. Research Hypothesis: theoretical discussion

The discussion so far suggests that reform towards neo-liberal consensus is the product of interaction between structural (economic) transformations and domestic political dynamics. As the focus is on political determinants of labour policy, broader institutional and structural factors influencing labour are removed from research design through sub-national comparative study. The underlying argument being any variations in labour market reform despite the uniformity of structural pressures on sub-national states should be due to political factors. Political understanding dictates that labour policy is the outcome of interactions between relevant socio-economic interests namely labour and business with government within specific political, economic and social setting.

In broader terms, it is argued that even though global transformations in the economy and polity (liberalisation and internationalisation) exert significant pressures on economies to adopt certain uniform policies, specific policy outcome is determined by the prevalent political economy. Labour policy under similar structural and institutional setting can be assumed to be determined by the interaction between trade unions, business and political party in power.

In the research hypothesis, political party is considered as a variable in place of government due to the inherent institutional similarity in the context of

sub national states. In most political economy analysis, government features prominently due to its central role in the formulation and implementation of policies and reforms are viewed as a change in the set of beliefs and interests of governments determined by the relative costs of the policy alternatives. Theoretically the government is driven by exogenous concerns of external compulsions, intra governmental dynamics between different departments and agenda of party in power. Under conditions of globalisation i.e. trade competition, capital mobility and multi nationalisation of production all governments are under pressure to become 'investment friendly' to attract mobile capital and ensure growth (Strange 1996; Esping-Anderson 1990).

In the context of sub-national states, the influence of structural considerations and external compulsions should be somewhat uniform being broadly conditioned by national economic conditions. In other words, difference generated by government obligation and intra-governmental dynamics are likely to be minimal. Similarly, administrative frameworks that have considerable impact on the reform such as mechanisms to resolve industrial dispute and modes of interaction between organs of government are broadly similar across the sub-national states. Hence, it would be useful to consider political parties rather than government to interpret differences in government attitude.

The emphasis on party does not seek to undermine the institutional dynamics of reforms that can be unearthed through a study of government. The role of different departments of government, especially institutional framework of government, role of bureaucracy and judiciary in policy formulation and implementation have been important themes in reform literature (Pierson 2001; Tsebelis 2002). There is literature that suggests a crucial but often overlooked role of bureaucracy in de-facto reforms through non implementation of policy (Harris-White 2003; Ross 2000). Although pertinent and engaging themes in their own

right, these questions are not considered due to scope of this research. The sub-national comparative research makes their impact theoretically minimal.

Finally, a pertinent question in the context of research hypothesis concerns the absence of culture (industrial, political, social) as an explanatory variable. There is a growing body of literature that emphasise on cultural or normative conditions as powerful explanatory variable in comparative analysis (Misra 2006). However, in the dissertation culture is consciously not treated as a separate all-encompassing explanatory variable but rather as an inherent part of the socio-political reality reflected thorough political dynamics and political actors. Since the focus of this research is on the role of political agencies and their consequent impact, it considers normative and cultural values as subsidiary but not insignificant factor.

The reasons are twofold; firstly the causal arguments presented in the dissertation would remain valid even if we considered culture as decisive in determining the behaviour of political actors. The fact remains that analysis based on culture and social norms usually improve upon existing materialist analysis by providing an explanation to existing gaps. Secondly culture or social norms are habitual practices of groups and communities that have historical origins. Political norms are part of the dominant culture and are generated, maintained and altered through interactions between political actors and environment, between actors themselves and internal characteristics of actors (Misra 2006). Thus, any effort to analyse and understand political actors within a specific environment encompasses cultural elements.

4. Research hypotheses

The construction of research hypothesis and overall methodology is driven by the objectives of deciphering and analysing the role of political actors and

dynamics in labour market reforms. As such, relevant political actors and processes that have an impact in the sub national context are considered in the analysis.

The principal hypotheses that guide the research are:

- *Hypothesis 1. Large private sector increases the pressure for greater labour flexibility and fewer restrictions for business*
- *Hypothesis 2. Strong trade union movement prevents labour market flexibility*
- *Hypothesis 3. Partisan orientation (support base) of government determines the extent of policy reform.*
- *Hypothesis 4. Nature of party system has implications for reforms. Increasing fragmentation and competition impedes reforms and vice versa.*

Having outlined the hypotheses that will guide this research it will be instructive to discuss in brief the different actors, their motivation and instruments of action as outlined in prevalent literature. The scope of this research is essentially the formal sector particularly manufacturing sector which is under the purview of labour laws and policies. In this dissertation, formal sector is defined as that which has a record with the government while informal sector is unregistered. Such a typology is convenient for research overcoming the problem of formal-informal classification through regulation as the informal sector is also regulated albeit by non-state mechanisms (Harris-White 2003).

4.1 Hypothesis 1. *A large private sector increases labour flexibility and fewer restrictions for business.*

The strength of business groups as the explanatory variable is obvious in a capitalist system as entrepreneur or business own the means of production and employ wage labour in the production process. As such businesses have an inherent interest in labour policy and seek to determine labour market outcomes

within a particular politico-economic system. As such, the extent of economy under the control of private companies has implications for business influence and choice of policies.

Globalisation with its emphasis on free market has translated into greater policy space to business through concentration of economic power, access to policy making and threat of capital flight (Held 1999; Sinha 2007). Such power of business over policy has often been identified as “government-business” coalition where business is perceived as a partner of government rather than a specific social interest group (Venkataratnam 1993; Mazumdar 2008). The Multi-National Corporations (MNC) representing the face of global business adds a new dimension to business-policy dynamics. Owing to the enormous economic power MNC’s can influence global governance structures by exerting pressure on the policies and practices of governments in both industrial and developing countries (Dunning 1997)

Businesses emphasise on greater labour flexibility to meet the challenges of global competition and changing production system in the context of neoliberal reforms. Highlighting the negative consequences of labour market institutions for investment and growth, businesses favour dilution of existing labour laws to attain greater flexibility. The attitude of business favouring greater flexibility can be explained through concerns of accumulation and business decision (production) within specific economic structure. Businesses in general favour greater decision making prerogative which is enhanced under conditions of globalisation due to greater competition. As such labour flexibility constitutes one of the conditions of investment under globalisation. The Doing Business report published by World Bank considers employment cost and ease of closure an integral part of pro-business reforms (World Bank 2010).

Such a business attitude towards flexibility is valid across their differences in terms sizes, sectors and economies. Although varieties of capitalism literature argue that response of business to labour market flexibility is not automatic but conditioned by the norms of interaction in the market, increasing labour flexibility in the CME's in recent years have challenged such an argument. Moreover, the argument suggested is based on high technology and skill based industries which does not characterise most transitional economies. Thus, even as not all businesses are affected in a similar manner and businesses that are threatened by liberalisation may favour protectionism, attitude towards labour market flexibility appears to be somewhat uniform. Businesses in general favour flexibility and a large private sector increases the pressures for labour market flexibility.

However, the power of business to influence policy is structured by the specific political-economic dynamics such as relative power of labour and nature of government and its relation to business. From the perspective of particular interest, the capacity to influence policy is determined by the extent of material resources, extent of organisation and the degree of centralisation or fragmentation in business unions. Materially the influence of business as an interest group emanates from contribution towards overall G.D.P and employment generation i.e. extent of private sector. Factors such organisation of business into association, nature of party in government and connection to the institutions and policy makers also affect business influence.

4.2 Hypothesis 2. *A strong trade union movement impedes labour market flexibility*

Trade unions (TU) as legitimate voluntary association of employees in industrial enterprise pursue specific objectives embodying workers interests. Discussing the role of trade unions Flanders (1970) has argued that TU's have two faces; firstly they focus on improving the position of their members through

representation, bargaining, and collective determination and secondly they advance broader objectives such as the promotion of democracy and social justice.

Trade unions by the very logic of their existence seek to protect and increase wages, work conditions and social benefits for workers.

Garrett (2000) in a comprehensive study has found that countries with greater unionisation of labour force tend to be significantly more protective than countries with lesser union density. Likewise, Deshpande (2004) in their study have found that firms with unions paid about 17 per cent more wage than those without unions in India. Also, wage difference between unskilled and skilled workers was significantly higher in non-unionised firms compared to firms with unions.

Naturally in neoliberal economic theory trade unions are considered as labour market institutions that impede the free operation of market by collective bargaining. Trade unions use their collective status to scuttle or extract compensation for reforms that have implications for wage, employment and job security (Horton 1991; Garrett 1998b; Downes 2004). Empirical evidence however, reveals that the response of labour to flexibility has not been homogeneous (Kume 1998; Kong 2006).

According to literature the response of trade union to labour market flexibility is determined by the size and scope of trade union, the location of trade union, and political dynamics. Developing the wage demand argument of Nelson (1990) it can be argued that small, fragmented organised labour generates weak pressure. When trade union is very powerful and centralised it moderates demand as it is part of the decision making aware of greater economic costs. Only when trade union is moderately strong at the sector or industry level they exert aggressive pressure for achievement of demands. Anderson (2001) has found that centralised trade union movements tend to have greater redistributive goals and unions may accept reforms for long term overall economic benefit. Similarly,

ideological dimension of trade unions especially regarding economic policy has an impact on trade union behaviour. Generally, left trade unions are ideologically opposed to economic liberalisation, whereas the response of non-left unions are not determined by predetermined ideological imperatives.

With regard to power of trade unions, existing literature suggests that membership; extent of centralisation of trade unions, existence of public sector, institutional framework of industrial relations and trade union-government linkage determines TU capacity to influence policy. Based on the arguments of organisational theory, the capacity to influence policy is positively related to the membership and the degree of centralisation of trade unions. This is because trade unions derive strength from their ability to act as monopoly supplier of labour through collective action (Banerjee 2005). Likewise, literature suggests that the relative power of trade unions is significantly determined by prevalent economic condition (Kume 1998). Trade unions have been found to be more assertive during periods of economic boom and accommodative during lean periods.

In terms of structural determinant of trade union power, corollary to the argument of a large private sector increasing the strength of business, a large public sector is argued to augment the strength of trade unions. Heller (1984) points out that, in less developed countries, the impact of trade union on the overall economy operates through the public sector by the mechanism of 'leverage effect' on domestic wage.

The power of labour is also significantly determined by institutional and political dynamics. Industrial relations regulation that outlines the powers of trade union and worker provide the basic framework of labour-business-government interaction. Similarly political dynamics such as nature of the party in government, level of union competition, and autonomy of union leaders from the party and rank and file account for government-labour relation (Levitsky 1998). In the

analysis of Egyptian labour reform, Alesina (1997) refers to the differing ability of trade union to influence reforms through access to decision making, nature (corporatist, fragmented, centralised) of organisation and independence from state and legal prerogatives.

4.3 Hypothesis 3 *Partisan orientation (support base) of government determines the extent of policy reform*

Any policy by the government is outcome based on the interaction of political party in power with distinct ideological agenda and desire of election. As Alvarez (1991) points out government aims to further partisan interests and preside over re-electable macroeconomic outcomes. According to literature, partisan orientation of government has a significant role in determining policy and outcome. Esping-Andersen (1990), Garrett (2000) and Korpi (2003) have found significant differences in economic and social policies between governments with left representation and secular-conservative representation. Similarly, Quinn and Shapiro (2004) in their work on taxation in America also find support for partisanship thesis i.e. ideological division between parties has an impact on public policy.

The conventional relation between political parties and economic-social policies derived from literature reveals two broad strands of arguments, namely instrumental and ideological arguments. While instrumentalist logic presupposes the electoral motive of parties as determining the social and economic agendas of parties, the ideological argument focuses on party ideology as an explanation for the different policies enacted by parties in power. Huber (2001) has argued that ideology and support base of the party in government significantly influence the orientation of reforms.

That ideology has a crucial role in policy making is clear from the policy and globalisation literature. Ideology has often been referred to as a causal variable in explaining the global shift from state to market led policies (Naim 2000; Waters 2001). Political parties have definite ideological bias and government policy making is a complex process in which often-unspoken ideologies mediate between interests and policy (Bello 1994). Esping-Andersen (1990) has pointed out general association of greater state control, extensive labour market regulation and economic closure with leftist parties and free market with neo liberal ideology.

Similarly, support base of the regime has significant ramification for policy as governments have electoral and popular concerns. There exists considerable literature on the politics of reform which focus on domestic class configuration or social networks. The opposition to reform literature argues that the beneficiaries of free trade are disperse and disorganised, whereas negatively affected are concentrated and organised. Thus, the negatively affected launch concerted effort to halt the reform agenda (Frieden 1996; Garrett 1998). Hence the capacity of the disaffected to become politically salient has serious ramifications for reforms. The importance of socio-economic support base is also reflected in the literature that views politics of reform as an exercise in political 'blame avoidance' (Pierson 1994). It is argued that reforms is usually attained through either a broad reform coalition to deflect criticism and opposition or through gradual, incremental and strategically tied packages that divide potential opponents by providing them with selective compensation (Williamson 1994; Jenkins 1999).

Similarly welfare state literature suggests that socio-economic configurations of party support determine the policy orientation of governments and institutional stability. Vogel (2001) has attributed the resilience German social welfare to the broad based nature of main political parties that contain both pro and anti-reforms sector of business. Similarly, Esping-Andersen (1990) explains the

survival of social security measures in the Scandinavian states through coalition between the working class and white collar workers which proved decisive in the politics of redistribution.

Although partisan differences in terms of left - right ideological division and support base have been found to be correlated in most western democracies, in transitional economies clear cut ideological difference between parties is not present. Consequently correlation between programmatic orientation and support base also do not conform to left –right classifications. As such in the context of transitional economies, partisan orientation needs to be addressed both in terms of ideological programme and interest of support base of parties.

4.4. Hypothesis 4. *Nature of party system has implications for reforms. Increasing fragmentation and competition impedes reforms and vice versa.*

The nature and operation of the party system influences policy choice as an endogenous variable affecting the operation of interest groups, partisan orientation and prevalent political discourse. Hence, any effort to understand labour market policies and their operation has to consider the potential relation between party system and process under consideration.

Theoretically, the party system influences the choice of policy as political actors do not act in isolation and react to wider political context. Broader political system i.e. nature and extent of political competition provide the framework of choices for policy makers and determine the nature of interaction between political actors.

Party competition can be approached at the level of ideological polarisation among parties and number of competing parties in the party system measured through effective number of parties. The conventional relation between party system and socio-economic reforms suggests that fragmentation in the party

system prevents alteration in socio-economic policies by creating large number of decision makers making consensus elusive. Roubini (1989) and Haggard (1995) have argued as a party system becomes fragmented, economic reforms become challenging as an increasing number of decision makers create policy stalemate. That is why, one party dominant system have different policy consequences than fragmented coalitional system characterised by greater bargaining actors. As such states with greater levels of political fragmentation should have lower levels of reform.

Similarly, ideological polarity is considered significant for reforms as policy changes are most likely when there is a low level of ideological polarisation among major parties. As Horowitz (2008) has pointed out, strong far-left ideas and other national identity-based sources of ideological opposition to reforms have inhibiting effects. Thus, the extent of ideological polarity between parties acts as an important determinant of policy making or transformation in a democracy and government are able to implement policies effectively on which there exist low levels of difference. Similarly, Pierson (2001) points out that economic reforms aiming at welfare retrenchment require hiding negative aspects or deflecting criticism away from the government. Naturally such a process is affected by the nature of opposition to economic reform.

It is necessary to note that features of party system share a relation of complex interdependence. For example, the relevance of ideological polarity is largely dependent on the extent of political fragmentation as ideological difference only becomes meaningful when extent of party system fragmentation is high. Similarly, governments under conditions of high fragmentation are more likely to implement policies successfully if the level of ideological polarisation among major parties is low. As such analysis of party system must incorporate broader socio-

political dynamics such as the impact of fragmentation on social cleavages, operation of interest groups and ideological polarity.

5. Conclusion

The elaboration of the theoretical framework makes it clear that the dissertation attempts to contribute to the understanding of policy reform through a political actor based approach. Implicit in the selection of hypothesis is the attempt to analyse variations in policy and outcome through the interaction of political-economic agents such as trade unions, businesses and political parties within specific political and administrative framework. Such an approach build on the existing literature in political economy of reforms by highlighting the importance of political factors under conditions of globalisation. As Mosley and Uno (2007) have pointed out in the labour market “domestic factors”; i.e. political institutions, ideologies, and interest groups are responsible for variations.

The attempt to evaluate the role of political-economic actors through a sub-national comparative study of also contributes towards development of middle range theory (small n) of labour market reform in large transitional economies. Such an endeavour is inspired by similar work on industrial policy and sub-national variation by Sinha (2005) who highlights the role of the developmental state explained through political contestation, orientation of government and regional political economy. Thus at a specific level of policy analysis, this research provides an analytical framework to explain the variation in labour market reforms in large transitional economies.

Finally, although this research emphasises the importance of political factors in determining reforms, it recognises the relevance of structural and institutional variables in such a process. The dissertation suggests that complex interaction of structural, institutional and political variables determine policy

outcome. Political agency has relative autonomy under extreme global interdependence.

Chapter 4

Case Study: the puzzle of sub-national labour market variations

1. Research and case study

The choice of case study is critical to empirical research in social sciences as research outcomes are largely dependent on such selection and many social researches have been found wanting in terms of case selection. Comparative analysis of like cases i.e. political units with similar features, but significant variation in the object of analysis can indicate the political agencies and factors responsible for variation. To identify the political factors that influence labour market reforms under conditions of globalisation this research adopts a sub-national comparative framework.

Such a comparison is ideal as sub-national states are institutionally and structurally similar political units with variations in labour market. In other words, the impact of globalisation, structure of the national economy and historical-institutional factors remain fairly similar across sub-national states. In term of actual site selection, this research builds on the experiences in India as a large transitional economy with a federal structure.

2. Sub-national comparison as an approach

As a methodology, sub national comparative analysis has received greater attention in recent times as limitations of large cross national studies have increasingly been recognised. The existence of historically evolved differences between different nations makes cross national studies analytically constrained as classification scheme for comparison often override historical-political differences. As Snyder (2001) points out cross national studies often suffer from incorrect ‘part to whole’ generalisations. Also, analytically such studies mainly focus on

institutional and structural differences at the expense of political processes and dynamics.

Sub-national comparison also makes the process of coding relatively simpler and facilitates understanding of spatially uneven processes through causal inferences. In terms of pure methodological considerations sub-national comparison allows us to increase the number of observations and variations in case of small number of cases (King 1994). The most valuable quality of sub-national comparative study is the ability to control some explanatory variables and focus on specific processes and actors. As such, with a careful case selection we can highlight the political determinants of labour reform by treating the potential impact of broader structural and institutional variables as similar.

The adoption of sub-national comparison has been reinforced by the recognition that theories have observable implications at many levels, and sub-national comparison can also contribute to theoretical understanding. Such a study allows us to look at infra-national variations and contributes toward understanding of regional political process obscured by the national framework of regulations. For example, Sinha (2005) has shown the importance of regional politics and sub national dynamics in the determination of developmental outcomes across states of India and in the process questioned the problem of inaccurate classification of political-economic systems based on national aggregates.

In spite of all the potential benefits of sub-national comparative study, it remains limited in its ability to explain broader national or supra-national processes. It must be recognised that wider national dynamics determines the choices available before sub-national states. Regional political actors and processes are embedded within broader political economy. However the recognition of national political-economy does not decrease in importance the relevance of sub-regional political actors and processes in mediating the process of reforms.

In the case of India constitutional division of powers has granted regional states with some degree of autonomy in framing and implementing labour policies. As such, sub-national variations in reforms highlight the role of regional political-economy. Contemporary research on economic reforms in large multi-level polities has also suggested an important role for sub-national states within federal structural (Saez 2002).

3. India as a case study

A comparative study of states with similar structural and institutional variables and variations in labour market outcome constitutes the case study for this dissertation. India constitutes a natural experiment as well as an important case study as it is a large transitional economy undergoing economic transformation with significant sub-national variations. As a site for sub-national comparative study, India offers a number of theoretical and methodological advantages.

India is a transitional democratic economy with an impressive record of stable political institutions. As such India can provide a successful model of negotiated economic reform in contrast to the undemocratic reforms experience of many East Asian countries. Also unlike Latin America, reforms in India occur in an environment of stable democratic politics and not under conditions of dual transitions (transformation in both political and economic regimes) that make the process more contested.

Further economists and political scientists have often identified significant variations in economic growth, reforms and policy innovations among the sub-national states (Sinha 2005; Bhattacharya 2007). The inter-regional variations in labour market outcome, economic situation and politics within the overall framework of Indian polity favour comparative analysis. Theoretically, the choice of sub-national Indian states as cases ensures that the macro-economic structure

and institutional framework remain more or less constant to enable comparison between 'most-like' cases.

Another important reason for selection of India has been the plethora of academic and government publications that make research substantially easier. India has an impressive record of collection of statistics among the developing countries. Also, personal familiarity with the political, economic and social realities makes contextualisation and interpretation of research significantly easy. In this context, it is necessary to mention that published data is primarily for the formal sector of the economy, and there exists a large informal sector outside state purview.

The labour markets of developing economies are characterised by duality of formal and informal sector. While the formal sector is organised characterised by existence labour institutions and rights, the informal sector is characterised by lack of formal employment status. The Resolution concerning statistics of employment in the informal sector, adopted by the Fifteenth International Conference of Labour Statisticians (1993) describes the informal sector as consisting of production units that typically operate at a low level of organization, with little or no division between labour and capital and on a small scale. Labour relations are based mostly on casual employment or personal relations rather than contractual arrangements with formal guarantees.

According to Tendulkar (2004) less than 10 percent of the 500 million person labour force is organised or has regular employment. Sen (2009) has found that within the organised sector share of small and medium enterprises is around 44 percent of aggregate production and constitute 95 percent of all industrial units in the country. Such a situation has led Jha (2008) to conclude that broadly the Indian labour market is extremely flexible with the absence of any social security and employment security regulation for labour.

Importantly the issue of labour market flexibility at the macro level is inexorably linked to the formal-informal divide in labour market as conventional understanding suggests that the informal sector indicates de-facto labour market flexibility. In other words, greater size of the informal sector may indicate greater labour flexibility at the macro level and vice versa. However the analysis of labour market flexibility in the formal sector, particularly politics of reform may be undertaken without recourse to the informal sector due to the inherent differences in the nature of the two labour markets.

Firstly in terms of research methodology the issue of labour market reform towards greater flexibility pertains only to the formal sector and not to the informal which remains 'outside the realm of the state'. The literature on labour reforms points out that regulatory mechanisms restrict flexibility in the formal labour market unlike informal sector marked by the absence of such regulatory restrictions. Since by definition the laws and policies of the state do not apply to the informal sector, the issue of reform towards greater flexibility through regulatory relaxation does not arise in such sector.

Further labour literature suggests significant differences between formal and informal labour markets in terms of efficiency, wage differentials, information asymmetry and market elasticity. Alcaraz (2009) points out that efficiency wages literature and job search theory elucidate the differentials in flexibility between the two sectors. Based on the case study of Mexico he argues that while there exist a relation between unemployment rate and wage in the informal sector, there exist no statistical effect of unemployment on formal wages. Thus, the informal sector is more flexible and adjusts according to market forces unlike the formal sector where questions about flexibility are relevant.

Thirdly in the context of labour market, the existence of informal sector is considered an outcome of greater labour market regulation rather than the opposite. In other words, available evidence suggests that the greater share of informal sector is due to rigidity in the labour market or greater regulations. Labour regulations have been argued to impact formal- informal divide in the economy by influencing firm behaviour by increase the cost of hiring workers, affecting the speed and cost of labour adjusting and influencing the relative bargaining power of workers and firms (Hasan 2012). As such the share of informal sector in the economy is a function of labour market flexibility rather than flexibility being influenced by share of informal sector.

The point can be illustrated with the example of formal sector employment in India which is concentrated in small and large enterprises and characterized by a 'missing middle.' (Mazumdar 2008). To explain such a size distribution of enterprises Hasan (2012) has identified production technologies, product market differentiation and government policies encompassing labor market regulations as being responsible. He points out that since labour regulations in India are applicable to firms above the thresholds of 7, 50, and 100 workers (see discussion on regulations in previous sections), regulations create strong incentives for firms not to expand beyond a certain level. Empirical study of the extent of small scale industries across sub-national states reveals that states with greater flexibility are characterised by the prevalence of larger sized firms.

Finally, by definition the informal sector is beyond the records of the state and consequently data is very difficult, to gather for macro-economic research.

The issue of labour market flexibility has been much contested in India particularly since economic liberalisation. The Indian state formally signed the

GATTs (general agreement in tariffs and trade) in 1991 signalling the end of ISI (import substituting industrialisation) strategy and dismantling of the License-Permit Raj system. Economic reform aimed at growth by improving economic efficiency through removal of government control in sectors of the economy and changes in policies such as exchange rules, tax policy, banking regulation, industrial policy, trade policy, and infrastructural policy. In consonance with the new economic policy changes were sought in labour laws as rigidity in the labour market was claimed to limit competition and optimal allocation (Basu 2004).

Most of the labour laws and regulation in India are claimed to discourage employers from recruiting workers, affect competitiveness and investment. The existence of dual labour market in India with an organised sector (where labour that secure employment and rights) and an unorganised sector (informal, casual employment with no security) and unemployment is often attributed to the severity of legal provisions in India (Basu 2003; Anant 2004; Besley 2004). Thus, demands for labour market reforms by amending the legal provisions have gained currency to encourage employment and growth.

However, paradoxically in spite of two decades of reforms (second generation) one area where deregulation and abolition of restriction did not materialise was that of labour. As Sharma (2006) has pointed out more than 100 developing countries have reformed their labour laws in response to competitiveness in the era of globalisation, but India remains among a select few countries with a rigid system of labour protection. Only recently in 2001 important changes were introduced in Trade Union Act which put 10% or 100 workers as minimum instead of earlier 7 workers as the minimum to form a registered union. Factories Act was amended in 2005 to allow women work in the night shifts, and the Child Labour (Prohibition and Regulation) Act 1986 became effective in 2006 (Sato, 2008). Apart from these no significant changes in labour policy was

accomplished despite broad reform proposals and successive pro liberalisation governments.

In this context, the focus of labour reforms has shifted to the sub-national states. In the constitutional scheme of things, sub-national states are empowered to bring amendment and hold responsibility for implementation of labour regulations. States can and often do make policy changes in areas like trade union registration, recognition, minimum wage laws, defining or redefining limits or granting exemptions regarding the applicability of legislations, etc. Scholars like Sharma (2006) and Hensman (2001) have argued that labour market flexibility in India is occurring de-facto at the subnational level. Interestingly even though governments both at central and state level have been simplifying procedures to introduce flexibility such a process has been variegated.

3.2 Structural-institutional framework of labour market

Before going into the specific details of the case study it will be useful to discuss in brief the structural and institutional features of labour market in India, both at the sub-national as well as national level.

The sub-national states, as discussed, provide scope for comparative evaluation due to their broad structural and institutional similarities. Since the structure and nature of capitalism has always been institutionalised largely on a national basis, sub-national states have similar economic institutions and practices. In terms of institutional framework, most sub-national states have largely similar structures given the state centred developmental model where the central government due to political (dominance of one party rule) and constitutional superiority determined the framework. As central government with greater powers sought to integrate the all the states in an overall plan of economic and political development much of the institutional framework developed on a pan Indian scale

with minor institutional innovations at the state level. As such there exist a plethora of labour laws in India, both at the central as well as the state level. However most of the important labour laws are central laws and sub-national states make amendments to suit their particular specificities.

Broadly speaking the major central acts that determine labour relations can be classified on the basis of objective and orientations into four categories; namely, work conditions, industrial relations, social security and wage related provisions.

The work conditions and matters related to work place are mostly dealt with by Factories Act 1884 and Trade Union Act 1926. The Factories Act 1884 lays down the conditions of work and rights of the workers. It provides minimum conditions of work safeguards for health and safety and deals with issues of payment of wage, overtime and work hours. It covers all factories employing 10 or more workers with use of power and those with 20 or more workers without power. The enforcement of the act is through the state government although the act is central legislation. The Trade Union Act 1926 ensures the rights of workmen to organise and collectively redress their issues. According to the act at least 10 percent of the total workforce in a unit or 100 workers (whichever is less) can form a union and seek registration to take part in the collective bargaining negotiations (before 2001 amendment the number required to form union was at least 7). However, formation of a union does not guarantee the right to participate in negotiation with the management in the absence of clear rules to decide the bargaining agent on behalf of the workers.

Among the social security measures the major acts are Employees state insurance act 1948 and Employees provident fund miscellaneous and provisions act 1952. Workers in the organised sector enjoy social security such as provident fund, gratuity, bonus and post retirement pension. However due to fiscal issues the government has moved from 1994 from a system of defined benefits to a scheme

of defined contribution and market return based sustainable benefit. The ESI act 1948 provides for certain benefits to employees in case of sickness, maternity and employment injury and lays down the procedure for delivery of these benefits.

In the context of wages there exist mainly two acts in India, namely, the Minimum wages act 1948 and Payment of wages act 1936. Minimum wages act recognises statutory minimum wages in list of activities in which unorganised labour is employed. These lists are updated by the appropriate governments from time to time. In order to ensure regularity, fairness and judicious modes of payment the Payment of Wages Act 1936 ensures protection against delays in payment, unreasonable deduction from wages and fixes the period of payment. It applies to the entire country and covers persons employed in establishments specified by the central and state governments.

The industrial relations framework of India constitute the main source of contention is contemporary debates about labour flexibility. With regard to industrial relations there are two major acts; The Contract labour (regulation and abolition) act 1970 and Industrial disputes act 1947. Contract labour act lays down the conditions under which contract labour can be employed, the rights and benefits of contract worker and their abolition under certain conditions. The act is applicable to establishments employing more than 20 workers as contract labour and contractor with 20 or more contract workers on any day of the last 12 months. The Industrial disputes (ID) act, 1947, is the principal legislation for resolving conflicts at the work place, wherein the state intervenes in any dispute between employer and employees. The objective of the act is to ensure the investigation and settlement of industrial dispute for securing good relations between employer and employee, between workman, prevention of illegal strikes and lockout, relief to workers in matters of lay off, retrenchment and closure and promotion of collective bargaining. The act stipulates that in case of any industrial dispute the

state i.e. the Labour Commissioner becomes a mediating and conciliating party and employers or employees are expected to inform the labour commissioner before declaring a lock out or going on a strike. The act also lays down the institutional framework such as works committee, conciliation officers, board of conciliation, court of enquiry, labour court, industrial tribunal and national tribunal.

Business is especially critical of the restrictive provisions of ID Act 1946 regarding retrenchment, lay off and redundancy of workers. Chapter VB of the act is applicable to all industrial establishments with more than 100 workers and requires prior government permission for retrenchment. Section 25 G determines the procedure for retrenchment with established principle of last come first go for workers being retrenched, a month's notice in prescribed manner and due compensation for retrenchment. With regard to closure, the act under VA (which is applicable to industrial establishment employing less than 100 workers) provides for 2 month notice from the employer to the government and due compensation to the workers. Under VB, (applicable to firms employing more than 100 workers) the employer has to make application to government in prescribed form at least 90 days in advance to the intended date of closure stating the cause of closure. If the decision of the government is not communicated within 60 days the permission for closure would be deemed to have been granted after expiry of 60 days. The act also refers to unfair labour practices by both employers and employees and provides a comprehensive list of unfair labour practices and infringement in section 21 M to discourage it.

The brief discussion reveals that labour market is extensively regulated in the organised sector. Interestingly like many developing economies, labour legislation in India are argued to be aspirational with limited effectiveness in the absence of a credible enforcement mechanism.

3.2 Divergences across sub-national states

Despite the structural and institutional similarities, significant inter-state variations in both economic growth and reforms can be identified across India. At first glance, the states differ in terms of growth rate and development and such divergences appear to have been aggravated under conditions of globalisation. Economic liberalisation has been followed by shifts in the federal framework whereby the power of the central government has declined substantially and sub-national states have emerged as important actors mediating the process of adjustment and institutional change (Sáez 2002; Nayar 2007). This has led to variations among states not only in terms of economic outcome but also policy orientation.

In terms of economic condition almost all studies on sub-national growth rate have observed the increasing disparity since liberalisation. Bhattacharya (2007) points out that since 1980's as the growth rate of India accelerated so did regional disparity in growth rate. Based on statistical calculations they argue that SDP growth rates show a fair degree of variation with some states recording high growth while rest lagged behind India's growth rate. The coefficient of variation of SDP growth between states increased from 0.14 in 1980's to 0.29 in the 1990's. Out of the 17 major state considered Gujarat, Tamil Nadu and Maharashtra were high growth states, West Bengal, and Andhra Pradesh were medium while Orissa, Bihar and Assam were low growth states between 1980-2000. In terms of per capita SDP which is a better indicator of regional disparity Goa, Gujarat, Maharashtra, Haryana Tamil Nadu recorded higher growth rates while West Bengal, Andhra Pradesh, Madhya Pradesh were medium growth and Assam and Bihar had the lowest growth rates.

Scholars are divided on the causes of such divergences in economic outcomes. While some like Sen (2009) point out the role of geographical factors

like initial resources endowments Sinha (2005) points to historical institutional developments and state specific political dynamics as causal explanation.

In the labour market also significant variation can be witnessed among the sub-national states. There exist literature such as Besley and Burgess (2004) and Aghion (2008) and others that highlight variations in labour regulation across states. Along with the divergences in labour market regional states of India have been characterised by ‘diverse array of market governance patterns’ and regional institutional innovations that reflected the distinct political economy of the states (Sinha 2005, pp 17-19). Thus despite institutional and structural similarities by virtue of their location within India, sub-national states have been marked by economic and political differences.

The implications of such variation are twofold; firstly any comparative analysis should strive to minimise the differences among states so as to allow comparison of most like case and secondly sub-national variations suggest the importance of regional factors in determining market outcomes.

4. Selection of sub-national states: cases for study

The research focuses on a small number of states which are most similar in terms of social and economic development for comparative case study. Such a selection is more rewarding than comparison of all regional states as it strives to minimise state specific economic differences that have an impact of labour market. As elaborated in the theoretical section, the extent of convergence in the labour market reforms is dictated by structural-historical, legal-institutional and ideological-political variables. As labour market is affected by historical institutional developments and economic dynamics, the selection of cases is sought to minimise the differences in economic and structural factors that may potentially influence the labour market.

In this regard, the states of Andhra Pradesh, Gujarat, Maharashtra and West Bengal provide natural examples suited for paired comparison due to their similarity in economic and institutional features.

Table 4.1 Comparison of SDP and per capita SDP growth, 1980 to 2000

States	SDP Growth	Per Capita SDP
High	Tamil Nadu Gujarat, Maharashtra, Karnataka, Haryana,	Tamil Nadu, Gujarat, Haryana, Karnataka, Kerala, Maharashtra
Medium	Andhra Pradesh, Kerala, Madhya Pradesh, West Bengal	Andhra Pradesh, West Bengal, Madhya Pradesh
Low	Assam, Bihar, Orissa, Punjab	Assam, Bihar, Orissa, Punjab
INDIA	5.66	3.54

Source: Calculations based on (Bhattacharya 2007)

The four provinces are advanced industrialised states in India employing the most number of workers in the manufacturing sector industry (Nagaraj 2004). Planning Commission data on rate of growth of SDP between 1980-81 to 1998-99 reveals that Maharashtra, Gujarat, Andhra Pradesh and West Bengal have been the high performing states (Kapila and Kapila 2002; Howell 2000).

4.2 Foreign Direct Investment and Foreign Technology Cases Approved (August 1991 to December 2005)

States/UTs	1991-2002 Aug-Dec.	2003 Jan-Dec.	2004 Jan-Dec.	2005 Jan-Dec.
Andhra Pradesh	103815.4	2362.95	10166.09	2572.05
Gujarat	107112.19	3070.75	14442.19	4384.92
Maharashtra	339397.79	12541.8	19138.36	35684.03
West Bengal	73564.59	3252.56	1154.15	2548.86

Source: Ministry of Commerce and Industry, Govt. of India

Since liberalisation, the four states have been the recipient of significant foreign investment with Maharashtra leading the way followed by Gujarat, Andhra Pradesh and West Bengal. A cursory glance of the data on FDI approval reveals Maharashtra and Gujarat have attracted greater share of investments compared to West Bengal and Andhra Pradesh. Although the data on approval may not correctly indicate the extent of exact investment, it provides some indication about the general trend.

At a more specific level, the economic condition and structures in Gujarat and Maharashtra have significant similarities while Andhra Pradesh and West Bengal are somewhat alike. Broadly using the standard parameters of economic comparison, namely economic growth rate and contribution of the secondary sector to state SDP, Gujarat and Maharashtra are high growth and high investment states while Andhra Pradesh and West Bengal are medium growth and moderate investment states. Such a classification is endorsed by the data on growth rate and sectoral division of SDP across states.

The table derived from data on State Domestic product in Bhattacharya (2007) suggests that states can be classified into high, medium and low based on the contribution of industrial sector to State Domestic Product.

Table 4.3 Classification in terms of industrial contribution to SDP, 1980-2000

State	1980-81	1990-91	1999-2000
High	Maharashtra, Tamil Nadu, Gujarat,	Gujarat, Maharashtra, Tamil Nadu	Gujarat, Maharashtra. Tamil Nadu,
Medium	Andhra Pradesh, Bihar, Kerala, West Bengal,	Andhra Pradesh, West Bengal	Bihar, West Bengal, Andhra Pradesh
Low	Orissa	Bihar, Orissa, Kerala,	Orissa, Kerala

Source: Based on Authors calculations from Bhattacharya 2007

The classification of states in terms of growth rate and size of the economy provides parameters to compare economic similarities between the sub-national states. The standard measure of growth rate, contribution from secondary sector and per capita SDP reveals the extent of similarity between Gujarat, Maharashtra and Andhra Pradesh, West Bengal.

Table 4.4 State wise comparisons on broad economic indicators, 1980-2005

Year	State	Growth Rate	Contribution from Industry	Per Capita SDP
1980-2005	Andhra Pradesh	6.04	16.076	7576.72
1980-2005	Gujarat	6.98	29.424	10450.94
1980-2005	Maharashtra	5.84	26.886	11355.04
1980-2005	West Bengal	5.72	18.78	7305.88

Source: Based on Authors calculations from Bhattacharya 2007 and Indiatat.com

As the data reveals for the period between 1980- 2005, Andhra Pradesh had a growth rate of 6.04 percent whereas for West Bengal it was 5.72 percent. The contribution from industry for the states was 16.07 percent and 18.78 percent respectively while per capita SDP was nearly same with 7576.72 and 7305.88. Thus, the two states can be considered broadly similar in terms of economic structure, and both were among the middle growth and middle income states of India.

Similarly for the states of Maharashtra and Gujarat, we can find similarity in economic structure as industrial contribution constituted 26.9 percent and 29.4 percent of the state domestic product. Although the economic growth rate of Gujarat surpassed that of Maharashtra, the two states are quite similar in terms of their per capita SDP. Gujarat and Maharashtra constitute the highest income states of India accounting for maximum investment both domestic and foreign.

Importantly the similarity between the states goes beyond broad economic indicators as we look into the nature of industrialisation in each state. This is

significant for study of labour as contemporary global transformations have led to growth of technology led automation, new high growth sectors like petroleum and chemicals, new production organisations with implications for growth, investments and labour policy. Hence, the industrial structure of the states constitutes a significant dimension of selection as states with similar industrial structure are likely to be subject to similar global market pressures.

Using the Annual Survey of Industries from 1980-1998 for Net Value added at the 2 digit level we compare the industrial composition of the states in terms of output. To make the selection robust the number of workers employed in different industries is also considered in analysis.

The categorisation of states is developed in terms of net value added and workers employed according to 2 digit industries based on the ASI data for the period 1980-1998. On the basis of average contribution by each 2 digit level industry to the total in the organised sector, the research develops a picture of proportional contribution according to industry during 1980-2005 for each state.

Table 4.5 Nature of industries in the states, 1979- 1998

Top Industries contributing to Value added ASI 2 digit level 1979-1998					
Andhra Pradesh	2021	22	30	33	3536
West Bengal	25	37	30	33	3536
Gujarat	30	31	3536	40	23
Maharashtra	30	3536	37	31	2021
Top Industries in terms of Employment generated according to ASI 2 digit level 1979-1998					
Andhra Pradesh	2021	22	40	3536	23
West Bengal	25	33	2021	37	3536
Gujarat	23	24	2021	30	3536
Maharashtra	23	2021	30	3536	37

Source: Authors calculations based on Annual Survey of Industries, Various Issues

As the table reveals Gujarat and Maharashtra are structurally similar in terms of nature of industries with a predominance of petroleum, textile and machine tools industry. Similarly with Andhra Pradesh and West Bengal high degree of similarity can be identified with agro industries, machine tools and steel dominating industrial structure.

Hence, the selected states especially the paired cases of Gujarat - Maharashtra and West Bengal-Andhra Pradesh represent states that are economically and institutionally 'most like'. Theoretically the impact of economic and institutional factors in determining policy outcomes should be similar in the paired case and any perceived divergence in labour or other policies may be attributed to political factors.

To make matters more interesting, the similarity between the states goes beyond economic structure. The states are also quite similar in terms of socio-economic development as indicated by Human Development Index.

Table 4.6 Composite HDI Index for the selected states, 1981-2001

State-wise Human Development Index - Combined in India						
State/UT	1981 Value	Rank	1991 Value	Rank	2001 Value	Rank
Andhra Pradesh	0.298	9	0.377	9	0.416	10
Gujarat	0.36	4	0.431	6	0.479	6
Maharashtra	0.363	3	0.452	4	0.523	4
West Bengal	0.305	8	0.404	8	0.472	8
India	0.302		0.381		0.472	

Source: Rajya Sabha Unstarred Question No. 5459, dated 17.05.2002. Indiatat.com

Although difficult to quantify, levels of socio-economic development have featured in literature on growth and development as important variables. For example, the modernisation literature suggests that societies with similar levels of

technological advancements and economic changes can enable changes in moral and cultural values which may have implications for trade unions, business associations and broader social concerns. Similarly, it has been argued that states with similar levels of socio-economic development are more likely to be affected by the opportunities and constraints of global transformations. As such states with similar HDI may be argued to be characterised by comparable levels socio-political-cultural development.

Evident from the discussion is the degree of similarity between the states especially Maharashtra and Gujarat on one hand and West Bengal and Andhra Pradesh on the other. The choice of paired cases based on similarity in size of economy, structure of the economy, composition of industries and institutional and structural factors enables structured comparison. The case selection exposes the limitations of simple sub national comparisons based on apparent similarities and paves the way for a more nuanced selection of cases.

In other words, the case study based on rigorous economic classification presents four states of which Gujarat and Maharashtra are the high growth, high FDI state with similar economic conditions while West Bengal and Andhra Pradesh are the medium growth, medium FDI states with comparable economic condition.

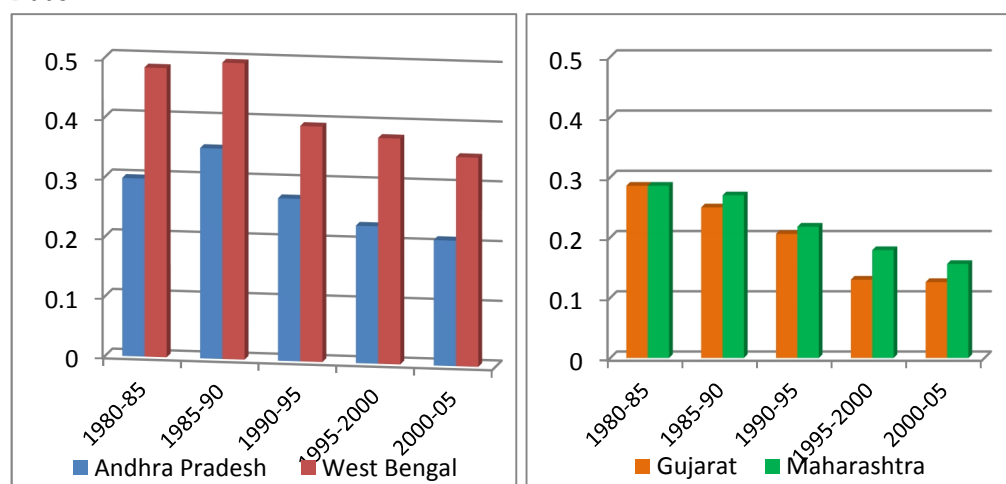
5. The puzzle of labour market variation

Interestingly despite the high degree of similarity in economic and institutional framework among the selected states labour market outcome appears to diverge. As mentioned, existing scholarship has pointed out significant differences in the extent of labour market flexibility across states of India. Besley (2004) in their study based on the amendment of ID Act consider West Bengal, Gujarat, and Andhra Pradesh as pro labour states.

In a comprehensive analysis of labour market, Shyam Sundar (2008) suggests that West Bengal is the most regulated state where as Gujarat and Uttar Pradesh are the least regulated state. The states of Maharashtra and Kerala are fairly regulated positioned at 3 and 4 with Andhra Pradesh and Rajasthan on the lower side of regulation positioned at 7 and 8 out of 10 states considered. The analysis of Shyam Sundar (2008) based on labour judiciary, number of trade unions, workdays lost due to work stoppages, number of scheduled employments under the minimum wages acts, average minimum wage, number of inspections of shops, average labour cost per man days worked and state industrial relations laws is more inclusive than that of Besley (2004) which evaluates only amendments to Industrial disputes act.

Analysis of labour market condition across the states as per the proposed index of flexibility reveals that Andhra Pradesh and Gujarat have comparatively flexible labour market than Maharashtra and West Bengal. The graphical representation of the different measures of labour market flexibility makes the point abundantly clear.

Table 4.7 State wise comparison of wage as a proportion of net value added, 1980-2005



Source: Annual Survey of Industry (various issues), Government of India

The data on wage share i.e. wage as a proportion of net value added reveals that labour share is higher in West Bengal compared to all the other states. In terms of relative position, the share of wage is greatest in West Bengal beginning at nearly 47 percent in 1980 and declining to nearly 30 percent in 2004-2005. The wage share in Andhra Pradesh begins at nearly 30 percent and declines to 19 percent during the same period. Wage share in Maharashtra and Gujarat during the same period decline from 28 percent to 12 percent and 29 percent to 9 percent respectively. The graphical representation on wage share presents comparative picture of the states across 5 year over the entire period.

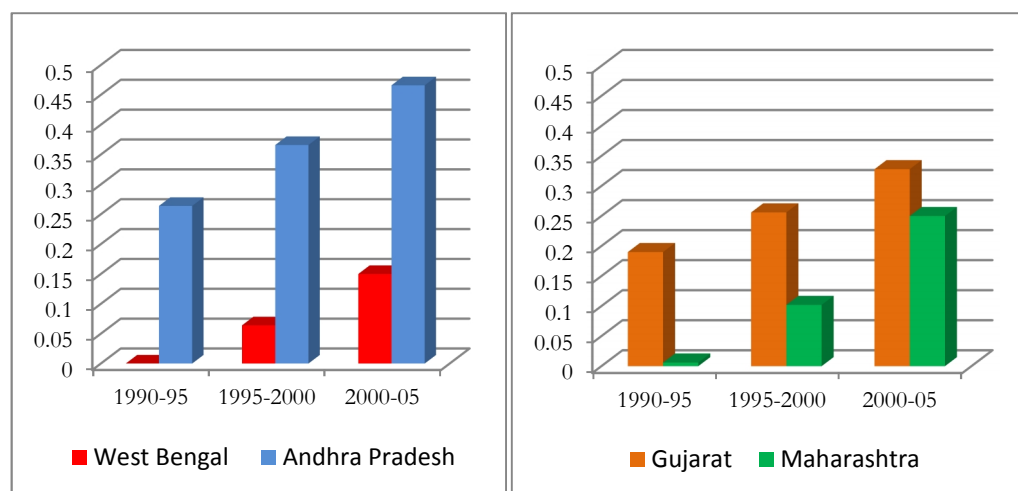
Interestingly all the states show a declining trend in labour share which indicates operation of market forces such as increasing capital intensive production and increasing productivity of labour. However importantly the rate of decline appears to be lower in the states of West Bengal and Maharashtra compared to Andhra Pradesh and Gujarat.

Similarly, the data on the proportion of contractual workers employed in industry reveals a picture of variation. Like in the case of wage share decrease indicating greater flexibility, share of contractual employment also reveals an upward trend indicating greater flexibility.

The data on proportion of Contractual worker reveals that Andhra Pradesh employs highest proportion of contractual workers which hovers around 50 percent of all employment, followed by Gujarat where contractual workers increase from around 15 percent to nearly 35 percent between 1996 to 2005. In Maharashtra the share of contractual worker witnesses, a sharp increase during 1998-99 and steadily increases to around 30 percent. West Bengal employs the least proportion of contractual workers which increases from marginal levels to around 15 percent during 1997-2005. Thus, extent of contractual workers reveal that

Andhra Pradesh and Gujarat are more flexible compared to Maharashtra and West Bengal.

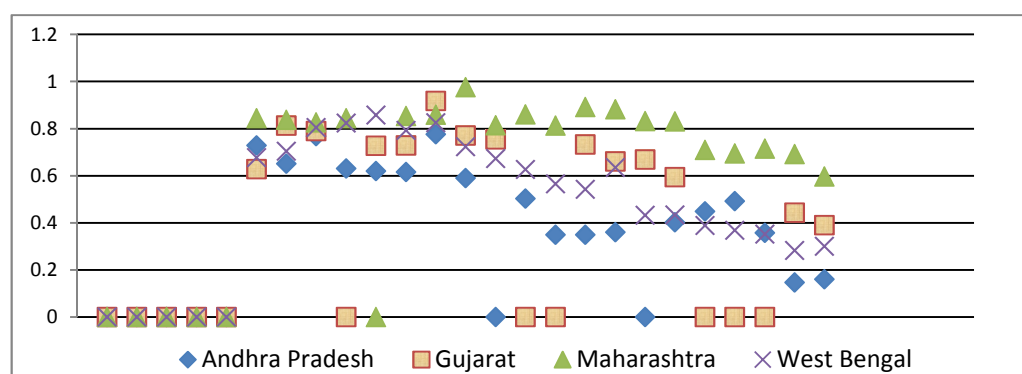
Table 4.8 State wise comparison of proportion of contractual worker, 1996-2005



Source: Annual Survey of Industry (various issues), Government of India

Similarly, the data on implementation reveals a secular declining trend in inspection across the states since 1991 with Andhra Pradesh leading the way, followed by West Bengal, Gujarat and Maharashtra.

Table 4.9 State wise comparison of implementation of labour laws, 1985- 2005



Source: Indian Labour Statistics (various issues), Government of India

The data on inspection, however, should be read with caution because of the inconsistency in the data. Also, states have implemented different norms for

industrial monitoring such as self-certification scheme that may lead to incorrect assumptions. Nonetheless, the data represents an important trend of decreasing state monitoring of the industrial sector.

In terms of labour regulation amendments at the state level, calculations confirm the conventional understanding with West Bengal making most pro-labour amendments, followed by Andhra Pradesh, Maharashtra and Gujarat.

4.10 Table of Labour Law Amendments across sub-national states, 1980-2005

Party wise amendment	Andhra Pradesh		Gujarat		Maharashtra		West Bengal
	Congress	TDP	Congress	BJP	Congress NCP	BJP-Shiv Sena	Left Front
Pro Labour	0	8	0	1	9	0	22
Pro Employer	0	4	0	3	6	0	0

Source: Authors classification from P.L. Malik 'Handbook of Labour and Industrial Laws', Eastern Book Company, Lucknow, 2009

The construction of the composite index broadly follows the index constructed by Besley (2004) with pro labour amendments marked -1 and pro employer 1. Thus interpretation of the composite score suggests that considering all the state level amendments overall West Bengal has made 15 pro labour amendments, Andhra Pradesh 5 pro labour, Maharashtra 3 pro labour and Gujarat neither pro labour nor pro employer. However such a composite score cannot indicate the exact nature of changes which have been elaborated in the appendix.

As the data reveals, all the pro-labour amendments in West Bengal and Andhra Pradesh were brought by the Left Government and the TDP government respectively in the 1980's. In 1980, the Left Front brought 9 pro labour amendments, followed by 1 in 1983, 3 in 1986-87 and 2 in 1989. In 1987, the TDP government brought 6 pro labour amendments, but the same TDP in 2003 brought 2 pro employers amendments facilitating labour flexibility.

In contrast, Maharashtra signifies both pro worker and pro employer amendments since the 1980's. Although during the 1980's pro labour amendments dominate, since liberalisation increasingly pro employer legislations were brought forward to increase flexibility of labour market. Interestingly both the pro-labour and pro employer legislations were largely brought by the Congress party and one can find a certain pattern of balanced legislation whereby the government sends signal to both employers and employees about its concerns. Gujarat, on the other hand, has relatively low amendments and most of the recent ones have been towards increasing labour market flexibility. The Government of Gujarat under the BJP has not only sought to increase contractual employment but also put termination out of scope of Industrial Disputes.

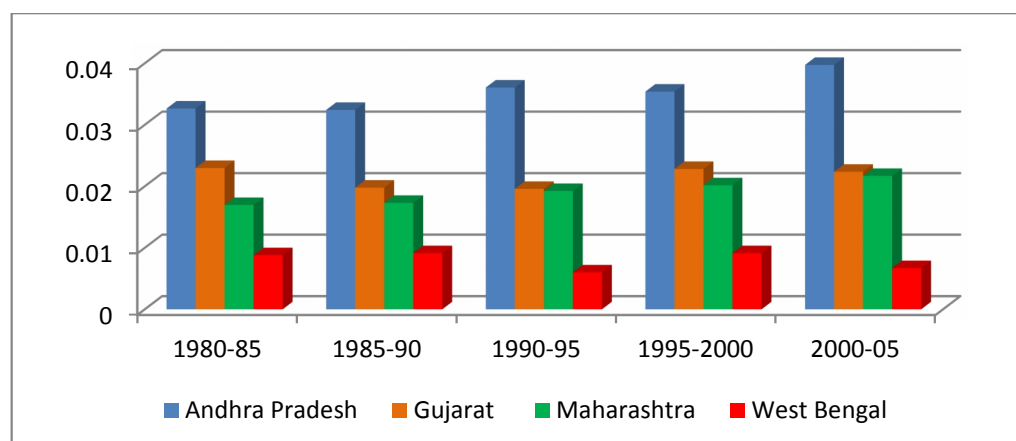
Thus, evident from the graphical representation of wage share, contractual workforce and implementation of Factories Act is a secular increase in labour market flexibility across the states since economic liberalisation. Labour is intrinsically a part of the productive process like capital and under conditions of globalisation it is subject to forces of domestic and global market that cannot be completely constrained by governments or domestic interests. Hence significant pressure for policy convergence under conditions of globalisation may appear to be valid as labour flexibility increases secularly across states.

However, the data also suggests significant variations in the extent of flexibility across states. Such a finding corroborates large number of studies that argue significant variation in labour markets across sub-national states. As revealed from the analysis of labour conditions in the states Gujarat and Andhra Pradesh have more flexible labour market compared to Maharashtra and West Bengal. In fact if we hypothetically arrange the states in terms of flexibility, Gujarat appears to come out on top, followed by Andhra Pradesh, Maharashtra and West Bengal.

Such an evaluation is endorsed by the regulatory classification of Shyam Sundar (2008) and contemporary research on labour situation which position West Bengal as an employee friendly state and Gujarat as pro employer state. The data on the percentage of workers retrenched reaffirms the remarkable sub-national variation.

The data on proportion of workers retrenched reveals that work reorganisation through retrenchment has been most pronounced in Andhra Pradesh and least in West Bengal. Although data on retrenchment is hugely under reported in government records, the data reveals significant sub-national trends. Since retrenchment is potentially a very sensitive issue for trade unions and business, the variation suggests a crucial role of political variables in influencing regional divergences in labour policy and outcome.

4.11 State wise comparison of proportion of workers retrenched, 1980- 2005



Source: Indian Labour Statistics (various issues), Government of India

6. Conclusion

The elaboration of case study makes it apparent that the four states represent variations in labour market policy and outcome with Andhra Pradesh, Gujarat being more flexible compared to Maharashtra and West Bengal. To be

precise although Maharashtra and West Bengal might exhibit increasing labour flexibility, such a development is relatively less than that of Gujarat or Andhra Pradesh. A careful reading of the legal amendments seems to confirm the classification of Aghion (2008) about the former states being pro-employer and Maharashtra, West Bengal pro-employee respectively.

Gujarat has been one of the most liberal market friendly states in India and has emerged as one of the foremost locations for investment with business friendly attitude. The Government of Gujarat policy document explicitly states privatisation, disinvestment, labour reforms and establishment of Special Economic Zones with flexible labour laws as the achievements of the Government. Similarly, Andhra Pradesh was the first state in India after liberalisation to negotiate loans from World Bank and undertake massive privatisation of electricity and transport sectors. In contrast, contemporary research on labour situation considers West Bengal as an example of employee friendly state (Nagaraj 2004).

Interestingly the position of Maharashtra is eclectic. Maharashtra has been market friendly and has liberalised some of the labour norms over the years such as Factories Act 1948, Trade Union Act 1928 and liberalising labour inspection. However, the extent of liberalisation of labour market is somewhat lower compared to that of Gujarat or Andhra Pradesh. Given the structural and institutional similarities, the apparent divergences in labour market flexibility across the states suggest important political dynamics at play.

In conclusion, it is essential to mention the time frame for the research as political and economic developments are constrained by spatial and temporal factors. The research broadly covers the time period between 1980 -2005 with 1991 as the point of break with economic liberalisation in India. The significance

of the period under consideration is not merely in terms of economic changes but also political developments in India.

The period of 1980-85 broadly correlates with the reign of Indira Gandhi and constitutes the last phase of absolute state control when the public sector would constitute the commanding height of the economy. At the sub-national level, it marked the assertion of regional parties such as TDP in Andhra Pradesh, Left Front in West Bengal.

The period 1985-1990 roughly corresponds to the period of partial liberalisation of Rajiv Gandhi, but the state continued to control the economy. The entire period can also be viewed as the last phase of one party dominant rule in India by the Congress party. In terms of industrial restructuring this period is important as Mill strikes in Western India came to an end with outcome decisively in favour of employers. The event marked widespread industrial restructuring.

The period of 1990-1995 is the period of formal and sweeping economic liberalisation and political instability. Political instability and coalition governments became a reality during late 1980's as India was rocked by communal and sectarian political agendas. The trend towards regionalisation of politics became crystallised as regional parties became key players and politics at the sub-national level increasingly shaped political dynamics.

The period 1995-2000 can be branded as the period of steady reforms when the actual effects of economic liberalisation could be felt in real terms. During this period, BJP emerges as an alternative to Congress rule at the national level, but not without coalition partners. Finally the period of 2000-2005 is the latest and most recent phase of liberalisation for which data is available.

The period under study allows us to consider economic variations given the time lag between policies and their outcome, but also allows comparison of economic outcomes with politically distinct periods for political-economic analysis.

Part II

Analytical Section

Chapter 5

Interest group: Business as a socio-political category

The following section attempts to explain the variations in labour market across sub-national states through political actors, specifically business interests, trade unions and political party in power.

1. Business as socio-political interest

Any analysis of economic reforms including labour policy should begin with business as an interest group. The dissertation adopts the term *business* rather than *capital* or any other term primarily due to research objective of interest group driven explanation. At a generic level, the term capital is understood as a factor of production or wealth that is required in the production of other goods and production of more wealth. In contrast, business indicates agents involved in trade or production activities for profit. As such, *business* as an analytical category is more suited for interest based analysis than capital.

The choice of business groups as the explanatory variable is obvious in a capitalist system as entrepreneur or business own the means of production, employ wage labour and play a crucial role in the accumulation process. Emphasising the centrality of business in economic globalisation Hall (2001: 5) argues that firms act as '*key agents of adjustment*' and therefore constitute the *centrepiece of analysis*.' However, despite the recognised importance of business in politics under capitalism, there is lack of theoretical work on the linkage between business and public policies, particularly in the context of transitional economies. This chapter attempts at understanding labour market variations through business as a relevant interest group.

Businesses favour greater flexibility in the labour market to increase managerial prerogatives and allow quick adjustment of factors of production. According to Hensman (2001) corporates in India have favoured dilution of existing labour laws to attain greater flexibility. The pressure for flexibility is enhanced under conditions of globalisation due to competitive pressures for attracting investments and greater policy space to business. Globalisation not only exposes business to global competition but also strengthens the relative bargaining position of business through the creation of economic and political regimes such as WTO, reduced tariffs, capital market mobility and reduced foreign ownership restrictions (Held 1999).

As such, increased labour market flexibility noticed since liberalisation, has relation to the increasing relevance of business in policy making. The argument presented in this chapter qualifies the relation between business and policy by highlighting the political dynamics. As the case study of labour market variations suggests, business influence on labour policy is significantly conditioned by the representation of business castes and groups within parties. To put simply labour reforms understood through flexibility does not correspond to the size of the private sector i.e. the material resources of business groups but on the position of business classes and groups within support base of parties. Such an outcome reflects the continued importance of partisan orientation in mediating public policies under conditions of globalisation.

The chapter is arranged in the following manner; the first section deals with the broad theoretical arguments regarding business and politics in the context of globalisation. Section two elaborates on business-labour dynamics with special reference to India. The methodology and framework of analysis is presented in section three. Section four presents the analysis based on quantitative data and qualitative interviews of business actors across the four cases. Finally, the

conclusion presents the main findings through a historical-institutional understanding of the relative variation in business influence over government due to partisan orientation.

2. Globalisation and Business

Globalisation is argued to be a benevolent process for capital or business by strengthening the dominance of market economy, constricting the role of states and expanding the influence of transnational corporations (Held 1999; Stiglitz 2002). It is associated with the rise in the political power of business vis-à-vis other social groups as well as the state through increased concentration of economic power, access to policy makers and threat of capital flight. Evidence suggests that bargaining between business and other social groups has been altered under conditions of globalisation. Scholars have often pointed out increasing policy relevance of “government-business” coalition which incorporates business interests in policy making (Mazumdar 2008).

Further, it is argued that powers and functions of the state are eroding vis-à-vis global actors such as multinational corporations and inter-governmental organisations. The Multi-National Corporations with the multi-nationalisation of production and enormous economic power are in a position where governments are often forced to negotiate on favourable terms (Dunning 1997).

Thus increased economic inter relation between states, global economic and technological changes along with ideational reorientation is increasing the scope of business relative to other social groups within societies. The role of business interests in such transformations are not always exogenous, but as numerous studies have revealed, often instrumental in influencing pro-market policy reform (Chibber 2006). The impact of business in policy transformation

towards neo-liberal reforms is a crucial question and this dissertation attempts to redress the issue through labour reforms.

Notably business here refers specifically to the private sector of the economy which is marked by heterogeneous set of interests based on nature, size and location of the firm. As a category business covers both trade and industry and range from small scale traders, medium sized firms to large industries. Intuitively we can assume that not all businesses are affected in a similar manner by globalisation. Even studies on globalisation such as '*The Globalisation Report*' suggest employers are poorly organised and fundamentally heterogeneous in their response to liberalisation (International Labour Organisation. 1997).

Theoretically the response of business to liberalisation may vary as businesses that are threatened by liberalisation, namely the import substituting domestic industries may favour protectionism as against the export oriented businesses that support liberalisation (Katzenstein 1976). Interview with businesses during fieldwork also reaffirms such an understanding of variegated response to globalisation. However variations in business attitude towards globalisation although extant should not be interpreted as opposition to globalisation and liberalisation per se.

Globalisation in terms of public policy involves two broad aspects, namely; internal liberalisation and external liberalisation. Internal liberalisation implies deregulations and privatisation of economic activity that augments business importance in economy and policy making. Naturally such a development is supported by business. External liberalisation, however, has evoked mixed response from business and questions of protectionism from international competition for weak industry; economic sovereignty, state promotion of export industry has repeatedly emerged as areas of conflict.

Such differences in opinion with respect to external liberalisation have been reflected in the attitude of business organisations. FICCI, the apex business organisation of indigenous private capital expressed unhappiness with the privileges accorded to MNC's during the early days of liberalisation. The reaction was natural given that FICCI represents more traditional and national business enterprises that faced greater competition due to trade liberalisation. Comparatively the response of CII and ASSOCHAM towards external economic liberalisation was generally more favourable given the larger representation of MNC's and export oriented industries (Kochanek 1995).

However variations in business attitude should not be interpreted as opposition to globalisation and liberalisation per se. Business has been in favour of internal liberalisation and increased economic integration. In interviews with business organisations and chambers across the four states, liberalisation was almost universally lauded and concerns raised by business were more about stalled reforms rather than global competition. However, the emphasis in the context has been on internal liberalisation as businesses want greater policy deregulation to enhance business capacity in an integrated global market. They want greater flexibility in the form of exit policy so as to facilitate restructuring, removal of restrictive legislation on urban land and rent control, reform of tax laws, privatisation of the public sector, and improvement of infrastructure to compete in the global economy (Nayar 1998). As such business attitude under conditions of globalisation is towards greater liberalisation and policy deregulation.

2.1 Business and Labour Policy

Business generally favours greater flexibility in competitive market economy. As Martin (2004) points out, firms resist any policies that interfere with their profitability by increasing tax burdens, or raising the wage floor of collective

bargaining, or interfere with managerial control. Labour regulations and trade unions often pose impediments to such profitability and market corrections. Although the necessity of some social regulation is accepted, it is argued that restrictive provisions have a negative effect on growth of business (Fallon 1993; Besley 2004). Increasing integration from trade and deregulation creates competitive pressures on business to reduce cost and increase flexibility. Interview with business associations across the states also corroborate business preference for flexibility in the labour market particularly since regulations affect firms in the formal sector (see chapter 4).

In the context of India, the adoption of market led development strategy has increasingly led to structural pressures for labour market flexibility. India like other most transitional economies has a small industrial sector with overwhelming dependence on agricultural and service sector. As a labour surplus and capital scarce economy, the state is under pressure to provide incentives to capital for investment. Such a developmental model is reinforced by the proliferation of trade and investment regimes leading to the creation of certain global norms based on liberal market model. This is reflected in the repeated concerns of governments as well as business organisations about institutional impediments in attracting investments and encouraging economic growth. As such theoretically it can be assumed that a large private sector will significantly increase the pressures for labour market flexibility due to political-economic reasons.

However the capacity of business to influence public policies as an interest group may not be conditioned by economic considerations alone. Political economic theory suggests that in democracies power of any interest group is significantly determined by wider dynamics such as countervailing interests in society, linkages to government and so on. In fact, an important weakness of varieties of capitalism literature, that explains reform variation through economic

coordination among business, is its lack of emphasis on the state and political actors. Even literature on welfare state that ascribe lack of reforms and prevalence of welfare measures to the political-institutional dynamics (Pierson 2001) fail in this regard. Although path dependency and institutional inertia can potentially explain the continuation of specific labour market regimes, it is essential to decipher the conditions that enable specific political economic interests such as business to overcome institutional legacies or vice versa.

Labour policy and outcomes are not merely determined by size of private sector or employer coordination but also by factors such as strength of labour, interaction between social economic interests and wider political process. Hence, it is necessary to evaluate the role of business as a socio-political actor in a wider political matrix especially in India characterised by historical weakness of interest groups and legacy of state presence in economic policy making.

2.2 Business and politics: determining public policies

As an interest group with specific economic interests business seek to influence government policies. Under conditions of globalisation business as an interest enjoys increased autonomy and leverage as the locus of policy making has increasingly shifted from national state to the market.

Approaching the issue of business influence on policy making Godbole (2004) has distinguished certain broad ideological-political perspectives. The dominant leftist view considers that politics under capitalism is dominated by business and interconnected elite of financiers and directors. An important theoretical derivative that in effect challenges the idea of a conscious ruling class has been *structural dependence of the state on capital*. The dependence of governments on the performance of the voluntary market transactions of business for growth and employment create the necessary conditions for business inducement in liberal

democracies. The privileges of business firms are not challenged, because restrictive government policies decrease investment, employment, government receipts, and economic growth (Lindblom 1977).

Contradicting the structural predominance of business over policy, the *Class Organisation hypothesis* considers business as an important part of society with varying relevance over time reflected through state-market dynamics. The class organisation hypothesis finds business influence on politics as dependent upon the resources at the disposal of business. According to Lucas (1997) the shift in the understanding of developmental role for business can be accounted for through resources at the disposal of business. He argues that previous development strategies emphasised the importance of interventionist state capable of dominating social groups, including business as it was assumed that business classes were weak and rent seeking. However contemporary trends privilege the role of the private sector as economic liberalisation and international competition has shifted the balance of power between business and government.

According to *partisan electoral view* the relevance of business is a function of political-ideological dynamics manifested through party in power. Parties draw their support from different socio-economic groups and the power of such groups fluctuates with the fortunes of their allied parties. It has been witnessed that power of business or capital is much restricted under left party while it is greater under administration of right (Alvarez 1991; Garrett 1998a). The composition of government in terms of ideological orientation and socio-economic basis have implications for macroeconomic policies such as level of unemployment, labour market rules, inflation, income distributions, growth strategies, and growth rates.

Finally, *Political Institutions* argument suggests that government policies and institutions have implications for relative power and influence of interest groups over politics. As pointed out in Quinn and Shapiro (2004) institutions of

government have a significant degree of autonomy and policies that are at odds with prevailing objectives are unlikely to be pursued.

Since the objective of this chapter is to determine the role of business interests in labour reforms, implicitly it is recognised that policy is not structurally determined by capital. Further, in the sub-national context any impact of political institutions in policy can be argued to be similar.

3. Determining business power

Empirical research on business-politics is confounded by the problem of identifying mechanisms and sources of business influence. Business influence on policy may operate on individual as well as collective level, both manifest and latently. Moreover, the effectiveness of business influence over policy is determined by the nature of policy at stake. The three main categories of public policy; distribution, regulation, and redistribution, tends to develop their own characteristic political structure, political process and group relations (Godbole 2004).

Given the constraints in locating the interactions between business and politics, the chapter analyses the role of business from a material- historical perspective to determine the sources of business influence that corroborate labour market flexibility in the selected states.

The power of business emanates from its control over capital and consequently the forces of production. As explained, modern governments everywhere for reasons of legitimacy have to ensure constant economic growth and, accordingly, must provide rewards to business to help foster that growth. Consequently we can argue that if the productive resources (capital, technology, industries) are under greater control of government, business is relatively marginalised. Therefore, the extent of public-private ownership of firms in an

economy should provide some understanding of business power. Expanding on the argument further, the fact that multinational firms have become critical drivers of technological innovation, learning, and economic growth affords them a very “privileged position” in domestic policy. Thus, the increasing concentration of foreign investment as well as private capital should augment the power of business under globalisation.

Hence in order to compare the relative position of business across the states this research evaluates data on the contribution of industry to the SDP, the share of public-private ownership of firms in the economy and extent of FDI as proxy variables for material resources at the disposal of business. Further, data on the number of export oriented firms in the economy is also considered due to their privileged position as foreign exchange earner as well as to account for the differences in business orientation based on the nature of industry.

However, analysis on the basis of mere economic data entails predicting policy choice from economic effects without knowing anything about the domestic political interactions. The mere possession of productive resources is not enough and business capacity to influence varies according to political institutional framework. As Lucas (1997) points out, it is not necessary that the power of capital by itself will succeed in producing policies that are favourable for business. Like any interest group, institutional capacity of business associations to perform their representative functions depends on factors like *professional resources of the organisation, freedom from excessive government influence and level of centralisation*.

Existing scholarship contends that corporatist organisation result in greater support and participation by employers in social policy formation and implementation. However such corporatist business organisations while increasing the power of business over policy making also may increase the bearing of social costs by business (Martin 2004). Given the absence of data on the extent of

centralisation and fragmentation of business organisations, qualitative interviews provide some clues about the level and extent of business influence.

Finally, the influence of business over policies may be determined through political-institutional dynamics. The partisan orientation hypothesis argues that governments marked by parties with pro-business policies share close collaboration with business to pursue friendly policies and vice versa. Hillman (1995) has argued that business government relations across countries can be better understood by examining the institutions through which they interact; both formal and informal, such as parties, executive, bureaucrats, business associations. The resources in the hands of business to influence government and parties vary from macroeconomic responses such as investment for states to financial assistance to political parties, personal gratification of political elites and connection to bureaucracy. As such linkages between political parties and business may be significant in determining business influence.

In order to evaluate the sources and potential impact of business over labour market policies the dissertation focuses on material resources of business, organisation of business and business-politics relations in the sub national states.

4. Case study: analysis of variation through business influence

Businesses in India have been consistently arguing, especially since liberalisation for greater flexibility in labour policy to facilitate factor adjustment. In interviews with business organisations and chambers of commerce across the states, the issue of archaic labour regulations has emerged as the consistent theme. The attitude of business is summed by Mr. B.P. Pant the Director of Labour Employment and Skill Development Division of FICCI, who argues that labour policy is increasingly incompatible with the changes in the economy, which has made production process more capital and skill intensive. The present labour

regulations and industrial relations are not enabling for business due to excessive restrictions and interventions by trade unions and government (Pant 2010).

Scholars working on labour and industrial relations have consistently pointed out that employers in India, have responded to these restrictive regulations in many ways such as sub-contracting, increasing capital intensity, expansion of leasing-in capacity of small firms, setting up of production in states where labour is not organised or militant, and the increasing resort to corruption and bribery in order to avoid the legal consequences of retrenchment (Datta Chaudhuri 1996; Ramaswamy 1988; Papola 1994). As a senior member of Bengal Chamber pointed out, businesses in India have learnt to manipulate the system like declaration of lockouts in place of suspension of work to counter labour militancy (Bandyopadhyay 1996).

Notably although, formal legal amendments towards flexibility have not happened, some measure of flexibility has been formally incorporated such as restructuring of unprofitable public-sector enterprises and a voluntary retirement scheme (assisted by the National Renewal Fund) by the government. The sub-national governments in India have taken the initiative, in varying degrees, to become business friendly by amending labour laws and relaxing their implementation. Such a development is reflected in the substantial differences in labour conditions and regulations across states.

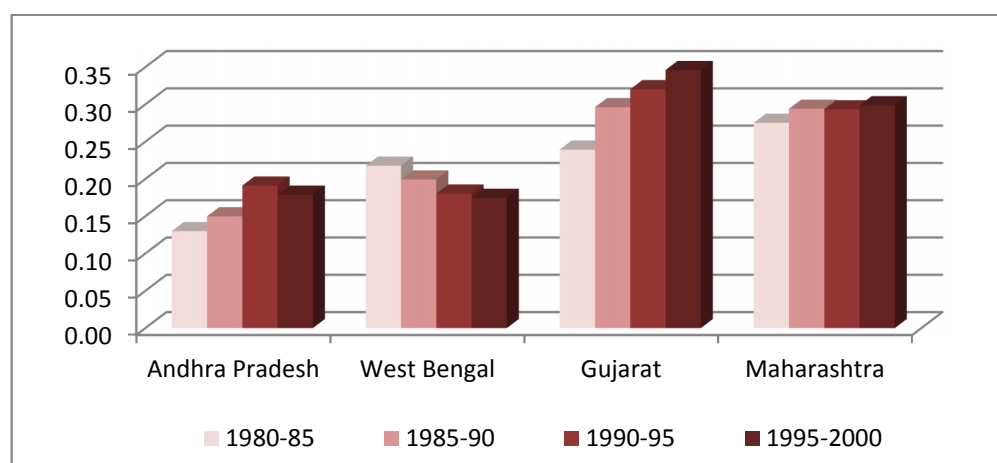
4.1 Material resources of business

Any attempt to decipher potential influence of business should begin with an assessment of resources at the disposal of business. At a macro level, the control over economic resources, namely capital and employment constitute the most noteworthy determinant of business influence. Since the focus is on labour

policies pertaining to formal industrial sector of the economy, the contribution of industrial sector to state GDP provides an important starting point.

As the data reveals, contribution of industry to NSDP is highest in Gujarat and since economic liberalisation secondary sector contribution has increased to nearly 40% of GDP. Although economically Maharashtra continues to be the dominant state in India, share of industrial sector has varied little over the period hovering around 30%. Further, disaggregated data reveals that since 1980's share of service sector in the economy has accounted for most of the GDP growth.

5.1 State wise share of industrial contribution to state GDP, 1980-1998



Source: NSDP table from indiastat.com

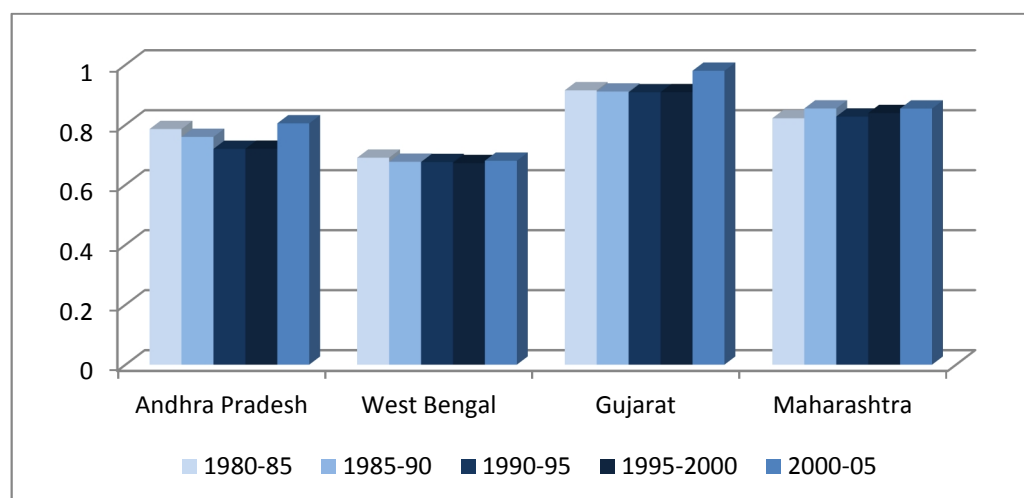
In contrast West Bengal and Andhra Pradesh present a picture where primary sector and tertiary sector dwarf the contribution of the secondary sector. Interestingly West Bengal presents a declining picture while Andhra Pradesh shows an expanding secondary sector. Such an outcome has often been cited in favour of flexible labour markets promoting industrial development.

Importantly the contribution of business to NSDP in the states of West Bengal and Maharashtra appear stagnant compared to states of Andhra Pradesh and Gujarat which show an upward trend. Such a situation in Gujarat and Andhra

Pradesh confirms that businesses consider these states suitable for investment and potentially implies greater focus of government on business. In order to determine the exact nature of the relation, it is necessary to look into the business-government dynamics at sub-national states from a historical perspective.

In terms of resources at the disposal of business, theoretically greater share of public sector would imply lower business influence not only on government but the overall economy and vice versa. As it is difficult to get comprehensive data on public and private capital at the state level, data on employment share in public and private sector is considered. The logic for the selection of such a proxy variables lies in the importance of employment generation by business, a function considered vital for the economy. As such greater employment in the private sector would indicate greater leverage of business.

5.2 State wise share of industrial employment in the private sector, 1980-2005

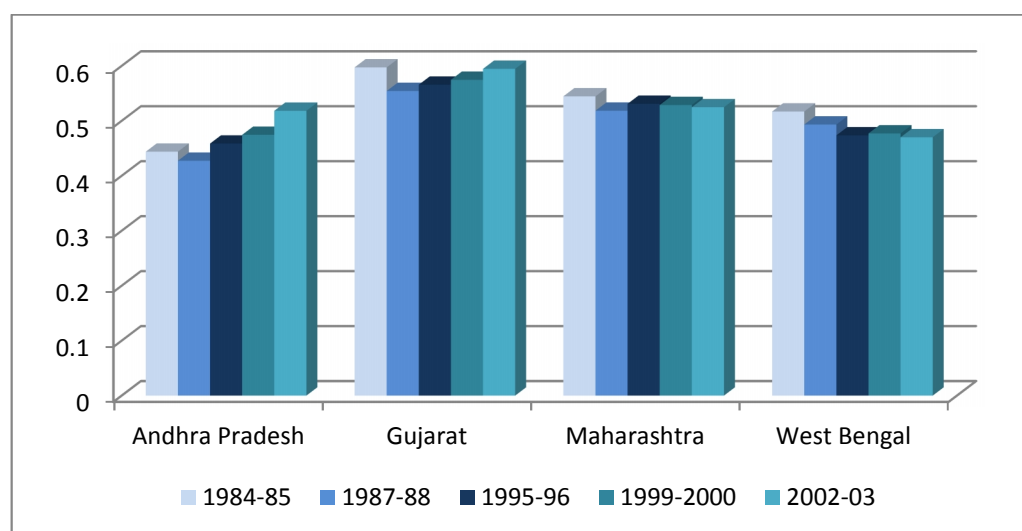


Source: Statistical Abstract, Government of India, Various Issues

The data on relative employment in the private sector factory reveals that during the period 1980-2005, employment trend remains more or less stable. Private sector employment is lowest in West Bengal around 65 percent while it is highest in Gujarat touching nearly 90 percent of the total employment. In the states of Maharashtra and Andhra Pradesh employment in the public sector hovers

around 80 percent and 75 percent respectively. In this context, Andhra Pradesh reveals significant variations across the period which potentially indicates greater volatility in the industrial employment.

5.3 State wise employment in private sector of economy, 1980-2005



Source: Statistical Abstract, Government of India, Various Issues

The data on overall private sector employment in the economy reveals that in Gujarat and Maharashtra private sector accounted for more than half of the total employment, with 60 percent employment in Gujarat accounted by the private sector. Private sector employment in Andhra Pradesh has increased over the period to reach 50 percent while for West Bengal, the figure has decreased. Evident from the data is that businesses i.e. private sector contributes relatively more to SDP and employment in Gujarat and Maharashtra in contrast to West Bengal and Andhra Pradesh. Disaggregated picture reveals that private sector contribution is employment is greater in Gujarat than Maharashtra; while the extent of private sector is more or less similar across West Bengal and Andhra Pradesh.

The data on employment share, across states and over time, reveal sub-national and infra-state variation. At an absolute level in terms of resources at the disposal of business Gujarat is characterised by greater business resources followed by Maharashtra. Theoretically greater material resources at the disposal of business may translate into greater leverage for business. In contrast Andhra Pradesh and West Bengal are marked by comparable and weaker organisation of business in terms of resources. Combining the different measures of business resources, it appears that business has greater resources at disposal and makes a greater contribution in terms of investment and employment in states of Gujarat and Maharashtra. In West Bengal organisation of business is revealed to be weakest.

At an infra-state level, over time developments reveal that, since liberalisation share of private sector employment has increased largely due to the changed policy orientation of market led development. However the extent of expansion of private sector varies among the states. The point can be elaborated through data on export oriented firms across the sub-national states.

5.4 State wise distribution of export oriented units and FDI approval, 1991-2003

States/UTs	Number of unit.	% of India	Investment	% of India	FDI Approved 1991-2005
Andhra Pradesh	458	10.75	42440	18.01	118916.49
Gujarat	509	11.95	8627	3.66	129010.05
Maharashtra	607	14.25	8149	3.46	406761.98
West Bengal	118	2.77	2930	1.24	80520.16

Source: indiastat.com

The export oriented firms emerged primarily after economic liberalisation and reflect the choice of business over location as well as political economic orientation of government. Analysing the relative position of business with regard

to investment, particularly FDI and export oriented units reveals that the state of Maharashtra has not only attracted most FDI but houses most export oriented units. The states of Gujarat and Andhra Pradesh are positioned behind Maharashtra with relatively high levels of FDI and export firms. West Bengal is on the lower end among the states considered both in terms of FDI as well as export oriented firms. The data on export processing units presents an interesting picture as Andhra Pradesh appears to be favoured for business location in terms of trade oriented firms. The states of Gujarat and Maharashtra retain their comparative advantage in attracting industries while West Bengal appears least attractive for business.

As such according to material resources business influence should be greater in Maharashtra and Gujarat followed by Andhra Pradesh and West Bengal. However, such an evaluation does not correspond to the experience of labour market flexibility across the states. In Andhra Pradesh although the contribution from business is lower, the state has been able to reorient policy to become more amenable to business interests. For example, the amendments to Labour Laws in Contract Labour Act which expanded the definition of non-core activities is often cited as an example of pro-business orientation of the state. Such a transformation incidentally cannot be explained through material resources of business as elaborated through the case study. In short material resources of business do not corroborate the relative variations in labour market flexibility, especially in the states of Maharashtra and Andhra Pradesh as flexibility is greater in the latter despite lower business resources.

The non-correspondence between variations in labour market flexibility and material resources of business suggests the operation of some other causal variable. To put simply, the material resources of business do not entirely explain the extent of business influence as states characterised by greater business

resources are not the most flexible or vice versa. Further the states are marked by divergences in the extent of organisation by business. As such, it may be useful to look at the organisation of business across states and political linkages of business that may potentially explain the variation.

5. Extent of organisation of business interests

An additional factor that may account for the divergences in business influence is the inter-relation between business and the policy makers. In a democracy, such policy makers include elected representatives as well as bureaucracy and actors such as political parties. Thus, the study of wider political dynamics especially the nature of interest aggregation by organisation and the business-politics linkages may provide vital clues to understand the variation in business influence.

The importance of political dynamics in determining the influence of business has been pointed out by scholars like Sinha (2005). Based on the study of regional variations in developmental policies she argues that even under the post-independence centre dominated development trajectory, regional political-economic configurations had a crucial role in policy making. She points out that the government in Gujarat historically focussed more on public-private partnership and played a facilitating role for private business in contrast to West Bengal where government followed a development strategy dependent on central public sector. Such a difference in developmental strategy was due to regional political and institutional dynamics.

In terms of specific political-institutional dynamics that effect business influence or power is extent of business organisation and partisan orientation of government.

5.1 Organisation of business

A potential explanation for relative weakness of business in Maharashtra in spite of material resources and vice versa in Andhra Pradesh may be due to problems of organisation. Like other interest groups, the capacity of business to influence policy and outcome depends on the resources of the organisation, freedom from government influence, level of centralisation and existence of other countervailing interests. As such analysis of specific dynamics of business associations across the states may potentially indicate some causal factor.

The states under consideration are marked by a multiplicity of business organisations based on region, industry and even rivalry across businesses. Although all states have multiple business organisations, Gujarat and Andhra Pradesh are characterised by relative centralisation of business organisations compared to Maharashtra and West Bengal. For example in Gujarat, the Gujarat Chamber of Commerce and Industry (GCCI) is the apex organisation not only in Gujarat but also as the largest regional body in India. GCCI offers an extensive range of diversified services providing information, acting as a channel of between business and government, acting as an interest group presenting pre and post budget memorandums before the various authorities. Interview with officials in the Chamber confirms the extent of close collaboration between government and Chamber with prominent politicians in the patron list. Similarly, in Andhra Pradesh the Federation of Andhra Pradesh Chamber of Commerce and Industry is the apex organisation reflecting a high degree of centralisation.

In contrast West Bengal is characterised by multiple and competing Business Organisations, like the Bengal Chamber of Commerce, Indian Chamber of Commerce and Bengal National Chamber of Commerce, Oriental Chamber of Commerce, Federation of Small and Medium Industries etc. These chambers of commerce represent the various industry associations and provide the logistic

support to business. Policy matters are directly taken up by the industry associations and Chambers of Commerce provides logistic support only (Mukarji 1989). Hence, extent of fragmentation or centralisation may potentially have some role in the explaining variations in business influence.

However extent of concentration of business is not an exogenous variable and essentially reflects factors like industrial composition, extent of business coordination, nature of business classes and similar historical institutional developments. As such, organisation of business as a variable in determining business influence can at best be marginal. What emerges from the discussion is the variation in relative efficiency of the business organisations across the states.

In an interesting study on state business relations, Cali (2009) has sought to compare the nature of relation based on an index of existence of business organisation, investment promotion agency and expenditure on industry. Although the some of the proxy chosen to quantify the variables may be questioned, it represents advancement in State Business Relation (SBR) literature and provides an overall trend in state business relation (see appendix). The findings of Cali (2009) in the four states under consideration for the period 1975-2008 reveal a high and increasing trend for Gujarat and Andhra Pradesh with comparatively lower SBR in Maharashtra while it is lowest in West Bengal. Interestingly for West Bengal, the SBR trend declines till 1990 and then begin to move upward. Such a SBR trend broadly correlates with the evaluation of business influence across the states in the dissertation.

The greater organisational centralisation of business in Gujarat and Andhra Pradesh and not in West Bengal and Maharashtra which have an earlier history of capitalist development raises crucial questions concerning the conditions that augment greater coherence among business. In other words, what conditions led to greater centralisation of business interests in Gujarat and Andhra Pradesh as

opposed to Maharashtra. The question assumes relevance in the light of the fact that mere possession of resources by business does not translate into influence, and broader political processes particularly coherence in interest aggregation and business-party linkage have a role in this regard.

6. Partisan orientation: business - party linkage

The conventional explanation regarding sub-national variation in labour market flexibility emphasises on the nature of government. The relation between business and government policy is not simple, and just as greater business contribution should lead to influence of business, business decision to invest is influenced by government policies. Alvarez (1991) points out that expectation about labour and government may affect business strategy as capitalists may be less likely to invest in the domestic economy when it confronts a strong labour movement and left government. Naturally the nature of party in power has implications for the nature of business-party linkage. Although the theme will be discussed in detail in the chapter on political parties, this section presents some preliminary findings on the issue of business-party linkage.

According to political-economic literature partisanship, i.e. orientation of government in terms of left or right economic programmes has significant relation to macroeconomic characteristics, such as employment levels, monetary growth rates, income distributions, growth strategies, and growth rates (Quinn 1991). Such difference in programmatic orientation of parties is argued to emanate from the differences in social support base of parties. Theoretically, partisan orientation of government can be explained through a combination of ideological and electoral imperative as parties in democracy seek to represent groups in society on the basis of specific programme. Even though, ideological and instrumental interests may change they are relatively stable providing medium and long term stability in party

system. Scholars like Frieden (1996) and Hankla (2006) have pointed out the importance of support base of the regime in the determination of policy in democratic systems.

The argument of partisan orientation is particularly relevant as ideological differences in party programme do not appear to explain the relative variations in labour flexibility across regimes. As the case study reveals major political parties such as Congress and BJP have a similar position on economic reforms, but the outcomes in labour flexibility are visibly different across parties and states. Moreover, variations in government orientation towards flexibility can be identified across sub-national states despite same political party in government. A case in point is Congress party government in Maharashtra and Andhra Pradesh which exhibit divergent outcomes in labour market. As such, it may be useful to consider the extent of business representation within parties that can lead to divergences in business influence.

To determine the dynamics between business and political party, the dissertation looks at representation of business within parties through an analysis of elected members of parliament. Since members of parliament are directly elected across the states during the same time, such data not only indicates the share of proprietary classes in the political system but also helps to overcome state specific political conditions.

Such a methodology is supported by literature on political parties that suggest candidate selection by parties reflect their support base both at the level of ideas as well as identity. As Hazan (2006) points out, parties seek to address the issue of representation through candidate selection and selected candidates not only reflect the political belief of their voters but also share descriptive characteristic similar to those they represent. In the context of the case study such an analysis is augmented by socio-political specificities characterise association of

business with specific communities As Damodaran (2008) has pointed out historical patterns of social stratification in India have led to broad correspondence between occupational groups and caste (endogamous occupational groups within Hindu society) structures within society.

As such analysis of social composition of elected representatives (MP's) can potentially indicate the nature of support base of parties and consequently the extent of business representation within parties. Theoretically greater representation of business castes among elected representative should lead to greater business influence and vice versa.

6.1 Partisan orientation: representation of business within party

Analysis of business representation across parties based on social composition of elected members of parliament confirms the partisan orientation hypothesis. The extent of labour market flexibility across the states seems to correspond to variations in the presence of business castes as a support base for parties. In other words, the data suggests that states where business castes constitute a dominant base for political parties especially the party in government are marked by greater labour flexibility. In contrast if business castes do not constitute a politically dominant support base due to reasons such as existence of strong countervailing groups or marginalisation of business their influence appears low.

In sum, the findings suggest that influence of business understood through labour flexibility is a function of political relevance of business. The argument becomes clear if we consider each sub-national state separately and analyse the dominance of business from a historical-political perspective. The argument is developed through data on elected members of parliament supplemented by available literature on political parties in the states. To develop a caste based analysis of partisan support the research uses caste and professional

composition of Members of Parliament collected from Who's Who of Lok Sabha published by the Lok Sabha Secretariat. The database on members is then disaggregated in terms of caste composition. In this context, it is necessary to point out that dominance of particular castes or groups within parties is influenced by wider dynamic such as party system, nature of political mobilisation and structures of social stratification.

6.1.1 Andhra Pradesh

According to literature, industrialisation in Andhra Pradesh occurred mainly under the auspices of the state under economic planning and until 1970s; the regional elite of the state were not keen on industrialisation largely due to their association with land. As Aivelu (2009) points out it was only after the green revolution, particularly in the fertile region of the state that one finds the emergence of agriculture turned industrial class along with an urban educated middle class. Such a development marked the emergence of a regional business class and increasing participation of private sector in the economy.

Interestingly, due to specific historical-social reasons peculiar to the state the emergent agriculturalist turned industrial section was largely dominated by two castes—the Kammas and the Reddis with some presence of Kapus. In the political scheme of things, the Reddis, a landed aristocracy turned industrial caste, traditionally dominated the Congress party. Probably that is why the first pro-business tendencies in the government understood through labour flexibility can be identified during the Congress regime in the early 1980s.

The historic rivalry between Kamma- Reddi, given their caste equation, meant that the Kammas did not find adequate space in the Congress party and largely supported the opposition. Eventually, the emergence of the Telugu Desam Party in the 1980s provided the Kammas a political platform and large sections

aligned with the TDP. The political assertion of the Kammas through the TDP explains the visible increase in the representation of business among MP's in the state during early 1980's.

The assertion of this regional bourgeoisie became decisive during post liberalisation period reflected through the leadership change in the TDP when N.T. Rama Rao, the founder leader, was displaced by his son-in-law Chandrababu Naidu. Observers of Andhra politics such as Suri (2004b) have pointed out that the leadership contest between NTR who represented opposition to reforms and Chandrababu Naidu who favoured increased reforms signified a wider social contestation where the business classes played a crucial role.

Analysis of support base of parties based on elected representative in the state corroborates the dominance of Reddis and Kammas in the politics of the state. As the data reveals Reddy, Kamma and marginally Kapu constitute the dominant caste groups within the state (S.C and S.T seats are constitutionally reserved) and tend to be represented by the two major political parties.

5.5 Crosstab of caste and political affiliation of MPs', 1980-2004

Party/ Caste Crosstab	Congress	TDP	Communist	BJP	Others	Total
Brahmins	9	5	3	1	0	18
Reddy	45	20	4	1	6	76
Kamma	19	18	1	1	1	40
Kapu (BC)	12	17	0	1	2	32
Velama	5	3	0	2	2	12
Goud (BC)	6	6	2	3	0	17
SC_ST	22	14	1	1	0	38
Muslims	4	1	0	0	6	11
Others	7	3	0	2	2	14
	140	90	11	12	19	272

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

Since these castes also constitute the major business communities in the state, business interest appear to be dominant within the support base of both Congress and TDP. In terms of relative variance between the support bases of the parties, the Congress appears to be characterised by somewhat more heterogeneous support base than the TDP.

Thus, business groups in Andhra Pradesh by virtue of their dominance in the support base of main parties have greater influence over public policy. The relatively greater labour market flexibility in the state despite lower business resources seems to be explained by this greater political influence of business.

The argument is further reinforced by the data on the profession of members of parliament over the period. As the data reveals, extent of business representation among members of the parliament is significantly high in the state as out of total 293 elected members during 1980-2004, 100 had some sort of business interest.

5.7 Crosstab of profession and political affiliation of MPs', 1980-2004

Profession	Congress	TDP	Communist	BJP	Others	Total
Business	14	7	0	5	0	26
Agriculture	48	35	0	2	5	90
Professional	22	23	3	2	4	54
Political Worker	15	5	6	0	6	32
Business & Agri	20	8	0	3	2	33
Agri & Profession	7	9	0	0	1	17
Busi & Profession	22	10	2	1	1	36
Busi, Agri, Profess	5	0	0	0	0	5
Total	153	97	11	13	19	293

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

Thus, the relatively greater influence of business in Andhra Pradesh inspite of the comparatively less material resources at disposal can be attributed to business-party linkage. The dominance of business groups within parties has meant greater leverage to business in public policies.

6.1.2 Gujarat

Detecting partisan orientation in the context of labour market reforms in Gujarat is difficult as the material resources of business suggest dominant role of business. A historical overview reveals that Gujarat has been characterised by the political dominance of regional bourgeoisie, which can be traced even before liberalisation. According to Sinha (2005) a class of capitalist farmers who later turned into industrial class (*Patidar Patel*), the artisan – trader (*Bania*) class and the backward castes constitute the regional bourgeoisie in the state. This regional business class developed and gained in strength even during the stage of economic planning due to conscious policy choice of regional political elites. In fact, greater share of private sector and relative lack of public sector investments was a conscious policy to strengthen the business classes by ensuring larger share of the economy (Sinha 2005).

Since the mid-1980s, after a brief period of political turmoil, the state has witnessed a stable two party competition between Congress and the BJP. Given the reformist economic orientation of the BJP and continuous BJP rule in the state since 1990s the increasing labour market flexibility in the state is quite expected. Interestingly, labour flexibility appears to increase under Congress regime prior to economic liberalisation due to the hegemonic dominance of business in the politics of the state. The dominance of patidar-bania-brahmin alliance has meant that irrespective of political parties, the developmental orientation of the state always incorporated business interests.

5.8 Crosstab of caste and political affiliation of MP's, 1980-2005

Caste	Congress	BJP	Others	Total
Brahmin	5	11	0	16
SC_ST	17	8	0	25
Kshatriya	40	21	0	61
Patel	20	32	2	54
Kayastha	0	5	0	5
Charan	3	4	0	7
Ahir	2	1	0	3
Others	0	5	0	5
Total	87	87	2	176

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

Evident from the data certain castes particularly Patels (Patidar), Brahmin and Kshatriya dominate politics in the state. As a significant number of Patels, Brahmins and some Kshatriyas constitute the regional bourgeoisie, business groups emerge as dominant support base for parties. The dominance of business castes as a support base appears to be greater in case of the BJP which corroborates commonplace characterisation of the party as the party of 'baniyas'. The support base of Congress party is not devoid of representation of business castes although there is greater representation of backward and scheduled castes.

However, such difference cannot obviate the across party dominance of business castes and groups. A look at the list of members of parliament in the state and their profession corroborates the dominance of business and professional classes in politics of the state. Business and professional classes (regional bourgeoisie) dominate politics in the state although variations in the levels of representation can be perceived between the Congress and the BJP. The representation of the regional bourgeoisie is around 80 percent of all BJP candidates and nearly 60 percent for the Congress which indicates business group

domination over politics across regimes and explains the institutionalisation of pro-business development policies.

5.9 Crosstab of profession and political affiliation of MPs, 1980-2004

Profession	Congress	BJP	Others	Total
Business	7	3	0	10
Agriculture	28	16	1	45
Professional	12	42	1	55
Political Worker	5	0	0	5
Business and Agriculture	17	5	0	22
Agriculture and Professional	2	4	0	6
Business and Professional	20	18	0	38
Busi,Agriculture, Professional	0	1	0	1
Total	91	89	2	182

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

6.1.3 Maharashtra

Maharashtra is potentially the most intriguing case as the state has been historically one of the frontrunners in terms of economic growth and industrial development. Given the large and vibrant industrial sector in the state, business should be comparatively more influential in bringing about greater labour flexibility. However as the case study suggests Maharashtra is marked by comparatively lower labour market flexibility. Although business constitutes an influential and powerful social group in the state, it has not emerged as a hegemonic group as in Gujarat.

The influence of business, in spite of a large private sector, appears lower because of the peculiar political dynamics of the states. Observers of Maharashtra politics have pointed out that numerically dominant Maratha-Kunbi caste-traditional middle peasant agrarian section constitute the most important political

group in the state. According to Palshikar (1999) formal political power has been vested with the numerically dominant maratha-kunbi caste group in the state. However the material interests of the brahmins (regional bourgeoisie- industrial and urban middle class) have also been preserved by the government through an elaborate patronage network.

The argument can be elaborated through the data on the dominant caste composition of the elected members of parliament in the state.

5.10 Crosstab of caste and political affiliation of MPs, 1980-2004

Caste	Congress	BJP	NCP	Shiv Sena	Others	Total
Brahmin	20	13	2	12	6	53
SC_ST	39	6	0	7	5	57
Kshatriya	7	3	0	0	1	11
Vyasya	0	0	0	2	1	3
Patel-Patidar	5	0	0	0	0	5
Ahir (OBC)	6	0	0	0	0	6
Dhangar	5	3	0	3	0	11
Maratha-Kunbi	70	16	13	24	3	126
Lingayat	11	1	0	0	0	12
Muslim	7	0	0	0	0	7
Mali	8	1	0	3	0	12
Others	6	8	0	0	0	14
Total	184	51	15	51	16	317

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

As the data reveals, the agrarian caste of Maratha-Kunbi dominates politics in the state in an overwhelming manner and consequently business interests although powerful is not hegemonic. In terms of partisan variation in support base between the main political alliance, namely Congress-NCP and BJP-Shiv Sena, it is evident that the former is relatively more heterogeneous with greater

representation of scheduled castes and marginalised communities. However the argument of dominance of Maratha-Kunbi agrarian caste in politics leading to lower influence of business interests needs closer scrutiny as sections of the caste have shifted from agriculture to industry. As Damodaran (2008) points out, Maratha castes have gradually entered industrial mainstream through co-operative ventures particularly in sugarcane. The data on the professional composition of elected members of parliament corroborate such an argument.

As the data reveals, there is significant representation of business among members of Parliament in the state which has increased particularly since early 1990s. As expected the proportional representation of business interests is greater in case of BJP-Shiv Sena compared to Congress-NCP.

5.11 Crosstab of profession and political affiliation of MPs, 1980-2004

Profession	Congress	BJP	NCP	Shiv Sena	Others	Total
Business	16	2	1	13	0	32
Agriculture	78	17	10	9	2	116
Professional	35	9	0	4	10	58
Political Worker	15	3	0	2	2	23
Business and Agriculture	13	6	1	11	2	33
Agri and Professional	4	1	0	0	0	5
Business and Professional	30	16	3	13	0	62
Busi- Agro- Professional	2	0	0	0	1	3
Total	193	54	15	52	17	332

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

Thus, Maharashtra presents a situation where business castes-class despite material resources and representation has been unable to exert commensurate influence on policies. A potential explanation for such an outcome lies in the nature of wider support base for parties which will be dealt in subsequent chapters.

6.1.4 West Bengal

The state of West Bengal represents a stark contrast to Gujarat where business has marginal political influence. The data on business representation reveals that business has practically no presence measured in terms of proportion of businessmen elected as MPs. Such an outcome becomes somewhat comprehensible in the light of the fact that the state has been ruled continuously for the last 34 years by the Left Front- an alliance of left parties dominated by the Communist Party of India (Marxist).

According to Sinha (2005) the peculiar politics in the state can be understood through the overwhelming dominance of the Bhadrak community in the politics of the state which meant that industrial elites were precluded from the political scheme. The social position of the bhadrak, in the urban governmental professions and middle class status with a historical legacy of cultural renaissance, nationalist fervour and Marxism induced ideas significantly radicalised the ideational discourse in the state.

Given the ideological nature of the regime, business especially large industries, were not particularly welcome and small scale sector along with public sector was encouraged (Raychaudhuri 2007). The data on employment reveals that compared to the other states the share of private sector employment is not only lower, but overall private sector employment has actually declined in the state. As such both in terms of resources and political influence business have not been able to exert any significant influence on public policy.

In the context of West Bengal, caste based disaggregation of elected representatives is not presented as business castes are marked by a historical absence in the state.

5.12 Cross Tab of profession and political affiliation of MPs, 1980-2004

Profession	Congress	Communist	BJP	AITC	AIFB	RSP	Total
Business	3	0	0	2	0	0	5
Agriculture	1	12	0	0	0	4	17
Professional	24	80	1	16	9	17	147
Political Worker	10	89	2	4	9	4	118
Busi-Agriculture	0	8	0	0	0	0	8
Total	38	189	3	22	18	25	295

Source: Authors calculation based on Who's Who of Lok Sabha (Various issues)

The analysis of business presence in support base of parties' i.e. partisan representation across states reveals some important dimension of business politics linkage across the states. The situation in Andhra Pradesh suggests that competing business castes constitute important support base for competing political parties. In terms of inter-party difference in support base, the Congress has relatively heterogeneous support base compared to the TDP. The case study reveals that business influence measured in terms labour flexibility is significantly augmented by business-politics linkage in the state.

The case study of Gujarat affirms partisan orientation in terms of business domination. However specific to Gujarat the linkage between business and politics transcends partisan divisions as business influence seems endure political alteration. In contrast, marginal influence of business in West Bengal can be attributed to the relative absence of business interests within political parties.

The situation in Maharashtra also confirms the relevance of partisan orientation as material or organisational strength of business is counteracted by the inability to emerge as a dominant social base for political parties. The case indicates that the mere presence of business interests is not adequate for political influence and the wider support base of parties needs to be considered in analysis.

The relevance of contending social groups in determining business influence and attitude may be identified from the difference in business attitude reflected across the states. An important finding of field work was the difference in orientation of business on the issue of labour market flexibility. Almost all the respondents in Chambers of Commerce in West Bengal and Maharashtra approached questions of flexibility with emphasis on socio-economic equality, often recognising the adverse effect of liberalisation of labour. As Mr. Chatterjee (2010), member of the Employers Federation of India eastern region, pointed out in the course of interview *'reforms is a social process that should aim at reducing social tensions'*. Business in West Bengal and Maharashtra although strongly endorsing labour flexibility for attracting investment and efficiency seem to approach the issue at a social level.

In contrast, the approach of business towards questions of flexibility in Andhra Pradesh and particularly Gujarat resembled the classic neoliberal paradigm where much more faith is on the beneficial impact of the markets. Parekh (2010), a senior consultant with CII in Gujarat, argued *'business logic has never been made subservient to politics in Gujarat, and that is why Gujarat has fared so well after liberalisation.'* Most business leaders in Gujarat emphasised on the benefits of growth reflected through enlightened interaction between business and labour that resulted in very low confrontation. The contrast in attitude is most prominent in terms of business attitude towards trade unions as business in West Bengal and Maharashtra appear to be more amenable considering it as a natural process of industrialisation while in Gujarat businesses preferred individual interaction with labour with relative marginalisation of organised labour. As Atul Kapasi, Secretary of Small Scale Industries Federation in Gujarat pointed out *'employers have been more organised to contain the trade unionism through semi-formal and informal networks and blacklisting of union organisers'*.

7. Conclusion

The finding of this chapter reveals that the extent of labour market flexibility across the sub-national states does not correspond to the size of the private sector in the economy. In other words, material resources at the disposal of business do not explain the relative variations in business influence. Disaggregated analysis suggests that in terms of economic structure, the power of business should be greater in Maharashtra and Gujarat compared to West Bengal or Andhra Pradesh. However, the data suggests that labour flexibility is significantly higher in Andhra Pradesh compared to Maharashtra despite comparatively smaller private sector and vice versa.

The differences in business influence in determining labour market flexibility appear to be a function of political organisation, specifically representation of business castes in the support base of parties. Sub-national analysis of business representation suggests that the existence of assertive and dominant business caste-class within main parties in Andhra Pradesh and Gujarat have led to greater pro-business orientation. The near complete absence of business classes in the politics of West Bengal has meant marginal influence of business in public policy. However, as the situation in Maharashtra reveals, mere presence of business interests within political parties is not adequate for business influence. Rather the ability of business castes-classes to emerge as a dominant support base i.e. electorally relevant constituency is crucial for business influence.

The argument of partisan orientation can be theoretically substantiated as interest groups in India have developed along pluralist lines and are often divided along nature of capital, regional concentration and even caste. The post-independence legacy of dirigisme had meant that the influence of interest groups dependent on their capacity to influence parties in government and electoral

outcomes. As such the relevance of business within electoral support base for parties emerges as a crucial factor in determining influence.

The finding thus challenges the conventional notion of variegated business influence across sub-national states due to cultural variations. An extension of the cultural variation argument is the debate about nature of business class, specifically in terms of social origin. It has been argued with some degree of empirical veracity that regionally loyal bourgeoisie with ties to the political elites has been one of the conditions of economic development. As the case study reveals, the emergence of agriculture turned industrial class in Gujarat and Andhra Pradesh with ties to political parties facilitate industrial growth and pro market reforms. In contrast West Bengal, marked by the absence of an integrated and regionally orientated capitalist class, has trailed in economic reforms (Banerjee 1998). Although there may be elements of truth in such argument, the case of Maharashtra contradicts it as like West Bengal, the state has been characterised by dominance of non-Marathi capital.

To sum up, the relative power of business across the states appears to vary due to the relation between business and government which in turn is structured by the salience of business castes as an electorally relevant group. States where business castes form support base for parties and have access to decision makers are the ones characterised by greater labour flexibility. As such the partisan orientation hypothesis appears to be most relevant explanation for variations in business influence. However the exact relation between the presence of business castes as a support base and the extent of its influence is contingent upon the composition of broader socio-economic support base for the regime. Parties in democracy derive their support from more than one group in society, and as such the domination of business interests within parties and government is not a matter of simple correlation, an issue that will be dealt in subsequent chapters.

Chapter 6

Trade Union as contending socio-political group

1. Trade unions, globalisation and reforms

The discussion on business in the previous chapter reveals that material resources of business do not corroborate its influence in the labour market. Rather the power of business to influence labour market outcome appears to be conditioned by political organisation of business along with material resources of business. To put it simply, the relative influence of business on labour policy appears to be influenced by the presence of business castes and groups in support base of government. Therefore, partisan orientation based on the presence or absence of specific class-caste interests emerges as an explanatory variable. Although such a finding is theoretically validated by literature on political parties, in order to reinforce the analysis based on labour reforms the dissertation also considers trade unionism as a potential variable. The partisan orientation explanation for sub-national variation in flexibility remains partial without considering the role of trade union.

Trade unions occupy a central place in any discussion of labour reforms as the organised face of labour. Conventional analysis of labour market flexibility has emphasised without fail the role of trade unions and protective legislations as impediments to successful reform (Crouch 1990; Horton 1991; Papola 1994). In short the successful implementation of labour reforms and outcome is conditioned by the presence or absence of strong trade unions. Important to mention that in political economic literature, the strength of business and trade unions is considered inversely related and as such question may be raised about the relevance of analysing both business and labour separately. However as the case study suggests such an analysis is necessary to illuminate the impact of intermediate

variables specifically political parties that lead to relative variations in the inverse relation between labour and business.

Based on the case study the chapter argues that strong trade unions are somewhat capable of preventing flexibility i.e. union strength is inversely related to the extent of labour market flexibility. Such an outcome confirms existing literature that argues trade unions in India have been able to stall reforms due to their absolute number and control over key economic resources (Varshney 1999). However the findings of the chapter deviate from conventional analysis in so far as to suggest that trade union influence on the extent of labour flexibility remains intractably a political process. Even though trade union activism prevents flexibility, the effectiveness of such action is significantly augmented or limited by the union-government relations.

The arguments presented do not necessarily defy, but add to the literature that highlight the growing distance between political parties and unions as a factor in declining importance of labour. Burgess (2004) argues that in the 20th century trade unions were the dominant instruments of collective action as they forged alliances with political parties and in the process played a role in shaping development strategies. The advent of globalisation with mobility of capital, expansion of service sector, changes in production method led to decline of traditional base of trade unions and created fluid identities. As such, the centrality of unions as mediators between workers and the state declined, and political parties largely evaded their commitments to labour due to international pressures, liberalisation of the economy, enhanced incentive to make economy attractive and altered political ideological context.

In terms of specific findings regarding trade unionism across the sub-national states, the chapter highlights certain prominent features. Firstly the spread and assertiveness of unions is significantly influenced by the economic structure in terms of public-private composition and institutional framework. Trade union strength is found to be greater in states characterised by the existence of larger public sector which appears to be a logical corollary to the inverse relationship between business and size of public sector. As such *historical-institutional* developments appear to have a role in influencing contemporary labour market. Secondly trade unions seem unable to prevent reforms when government is pro-reform indicating greater role of partisan variables in determining labour power. Interestingly greater representation of trade unionists among members of parliament i.e. government appears to contain labour movement and increase flexibility. Historical relation between the trade union movement and political parties has been argued to increase policy influence of labour. However after liberalisation it has meant greater pressures on trade unions by political parties to adopt macro view of economic development.

The arguments suggested are dealt in detail in the rest of the chapter which is arranged in the following manner. In the first section, a review of literature on trade union and their response to reform is undertaken to elaborate the theoretical framework. The second section briefly describes the evolution and features of trade union movement in India which provides a historical backdrop along with a cursory elaboration of trade union in selected states. The third section presents data on trade union movement for the states of Andhra Pradesh, Gujarat, Maharashtra and West Bengal.

The theoretical arguments are analysed with reference to data from trade union movement in the sub national states of India. The fourth section draws conclusions from the data and provides possible answers for the divergences in

labour market flexibility. The outcome derived highlights the continued relevance of trade unions for protecting the interest of labour as well as the importance of wider socio-political support base of regime party that determine the capacity of trade union to influence labour reforms.

1.1 Trade Union

A good starting point to interrogate the relation between trade unions and labour reforms under conditions of globalisation would be to address the issue of trade union. As a legitimate voluntary association of employees in industrial enterprises trade unions pursue objectives embodying workers interests. However considerations of worker interest have been a matter of intense debate given their normative content. Flanders (1970) famously argued that trade unions have two faces as they focus on improving the position of their members through representation, bargaining, and collective determination along with the advancement of broader objectives such as the promotion of democracy, social justice and support for disadvantaged groups.

Literatures on trade union reveal general consensus that along with economism (*demands of wage and work conditions*) trade unions also seeks to extend democracy to industrial sphere and strengthen the labour position. According to Etzioni (1971) the dual objective of trade unions can be addressed from an organisational perspective as one stated legitimising objective and the other actual sociological directing trade union behaviour. Like parties ideological and wider social orientation of trade unions serve as future goals for trade unions and provide legitimacy while concerns of workplace determine the regular functioning and immediate support base for trade unions. It needs to be pointed out that the dual objectives of trade unions may lead to differences in trade union orientation and goals.

Empirical evidence reveals that the attitude of trade union towards globalisation is not uniform, especially with regard to economic reform. Theoretically we can distinguish three potential factors that may explain the variations in the response of trade unions to issue of reform and flexibility; namely *material conditions, political-ideological orientation and organisational framework*.

Material conditions: The effect on globalisation (Chapter 2) has not been uniform across societies and economies. Naturally such a development has meant variegated impact of globalisation on labour. According to Wood (1994) educated and skilled labour benefit from globalisation at the cost of unskilled labour. Similarly, economic literature has pointed out wage and employment increase in export sectors of the economy along with loss of employment in the import sector due to globalisation. As such the impact of trade unions to economic reforms is conditioned by the material interests of labour and often differences between export and import, skilled and unskilled unions emerge.

Level of organisation: Scholars of welfare state literature have pointed out that centralised trade union movements, represented in a corporatist arrangement, are capable of internalising the externalities and have broader socio economic orientation. Hence, in centralised labour markets with powerful trade union may accept reforms for long term overall economic benefit (Anderson 2001). The response of organised labour to reforms has been found to vary from militant opposition to general acquiescence due to differentials in the degree of trade union centralisation.

Political-Ideological orientation: Trade unions are akin to political parties as they perform the function of articulation of demands, create consciousness and serve as a specific interest group. There are literature highlighting differences in the orientation of trade unions particularly between left trade unions and non-left trade unions due to ideological reasons (Masilamani 1994). The impact of political

factors is not confined to the realm of ideas, and political competition, and loyalties to government have been found to impact trade union response to liberalisation. Murillo (2001) in her study of Latin American trade unions has pointed out that political linkage between government and trade union facilitates cooperation where as political competition for trade union control provide incentives for militancy. However, competition among trade unions for the representation of the same group of workers weakens unions internally and intra union coordination externally.

The brief discussion on trade union suggests that unions are likely to resist any reform that negatively affects its constituency i.e. labour. However the exact response of trade union to particular reform is determined by a combination of material conditions, political dynamics and institutional features of trade unions.

1.2 Trade union and globalisation

As revealed in the discussion on globalisation and labour (Chapter 2) changes under the condition of globalisation have led to increased power of business and a corresponding decline in labour's bargaining power (Paczynska 2006). In consonance with the neoliberal ideology trade unions are considered as rent seeking institutional impediment to free operation of markets. The International Labour Organisation report suggests waning influence of labour as exhibited from declining data on trade union membership and trade union density in the last two decades (International Labour Organisation 1996).

Broadly, the literature on trade union locates the source of such emaciation in wider global restructuring associated with globalisation. Scholars like Sato (2008) have suggested that decline of trade unions is due to increasing currency of flexible labour and changing production process. Similarly, Rodrik (1997) has identified deteriorating labour conditions with competition for investment and pressure from

MNC's. Similarly, Gillain and Pokrant (2010) argue that the changed global production network have undermined the capacity of organised labour primarily through mobility of capital in a networked and multi-scalar form of capitalism in which trade unions remain limited by spatial restrictions.

Empirical evidence of unionisation in India reveals that economic liberalisation and deregulation have led to severe decline in the strength of organised labour. The Friedrich Ebert Stiftung report which covers the main industries in Andhra Pradesh, West Bengal and Maharashtra reveals a trend towards decline of permanent employment with the proliferation of contractual labour and declining rates of unionisation since liberalisation (Davala 1992). The period between 1995-96 and 2001-02 witnessed a retrenchment of 1.3 million employees (13 per cent of workforce) spread across 15 major industry groups (Nagaraj 2004). At an aggregate level, Sharma (2006) has calculated that the percentage of contract workers to total workers in manufacturing as a whole increased from about 12 percent in 1985 to about 23 percent in 2002. The emaciation of trade unions can be gathered from data on declining proportion of labour protests (strikes) in the face of such increasing flexibility.

The developments outlined are not unique to India but part of wider structural adjustment reforms that have corresponded globalisation. Hence globalisation has negative consequences for established privileges and powers of organised labour (such as secure employment, pension and health benefits along with weakening influence of labour on policy) and elicits critical response from trade unions in general.

1.3 Trade union and labour market reform

As an organisation of workers in industrial enterprises trade unions pursue specific objectives embodying workers interests such as improving the position of

their members through representation, bargaining and collective determination. Trade unions by the very logic of their existence seek to protect and increase wages, work conditions and social benefits for its constituents (Chatterji 1980). Naturally reforms that negatively affect established privileges of labour such as work conditions, wage share elicit opposition from trade unions. Horton (1991) in the study of reform in Latin America found strong trade union as an impediment to reform.

Trade Unions try to prevent labour market flexibility and use their collective status as well as significant voting power to scuttle or extract compensation for reforms that have implications for wage, employment and job security (Garrett 1998b; Downes 2004). Apart from direct collective mobilisation, trade unions often make use of relevant institutional framework such as access to decision making and legal prerogatives to prevent labour market flexibility.

In India, the influence of trade union over policy remains significantly determined by wider political dynamics especially institutional framework and union-government relationship. The industrial relations framework adopted after independence was institutionalised through an elaborate system of control, creation of large public sector enterprises and decision making prerogative with the state. In such a system, the state sought to control industrial disputes through development of pluralist corporatist industrial relations and complex legal system (Bhattacharjee 1999). As such state institutions and politics had an overarching influence in determining industrial relation and bargaining between labour and capital. Such historical-institutional developments ensured that a spatially restricted labour movement relied more on political negotiations and patronage than bargaining. According to Rudolph (1987) the industrial relation was characterised by state domination and '*involved pluralism*' where the trade union movement

proliferated massively along territorial, horizontal and vertical partisan lines but was marked by decline or loss of vigour.

Although globalisation marks a shift in industrial relations in so far as *retreats of the state, historical institutional developments imply* that wider politics continue to determine trade union. The impact of partisan politics on trade unionism can also be identified in so far as the extent of withdrawal of the state has implications relative power of trade unions. As Banerjee (2005) points out the transformation in overall industrial relations with breakdown of the social compact that marked labour regime contributed to decline in the strength of labour movement. Based on the case study of trade unionism in India Miyamura (2010) has pointed out that the apparent ‘retreat of the state’ from industrial relations masks the active political interventions at various levels that allow ‘reforms by stealth’.

The brief discussion suggests the trade unions are generally opposed to reforms towards greater flexibility due to their implications for established privileges such as wage, employment and work conditions. The trade unions use their collective status, institutional mechanism such as laws to prevent labour market flexibility. In the case of India due to historical developments political dynamics particularly trade union linkage to parties (in government) exerts influence on the capacity of trade unions. Intuitively it can be argued that the difference in the resistance put forth by labour to issues such as closure of textile mills and labour market flexibility is due to differences in trade union orientation and power.

2 Determining the power of trade union

Like any socio-economic interest in society the response trade unions does not necessarily influence policy outcome. Labour market reforms outcome is a combination of preferences of unions, government and employers and the labour

market institutions prevalent under conditions of negotiated bargaining. Hence the capacity of trade unions to impress their opinion is a crucial component in analysing trade union influence on labour flexibility.

Broadly the literature suggests that trade union capacity to influence policy and outcome is determined by organisation strength, institutional framework and political dynamics. A survey of literature on trade unions suggests that factors such as extent of organisation and centralisation, institutional access to resources, participation in decision making, autonomy from state and legal prerogatives, substantive legal rights (Alesina 1997; Paczynska 2006); prevalent economic condition (Kume 1998); nature of economic system i.e. organisation of production and product market (Miyamura 2010) and partisan dynamics determine the strength of trade union movement.

Trade union essentially functions to overcome the weakness of unorganised individuals labour in capitalist wage system through collective action. The unions gain power from their capacity to withdraw labour and prevent alternative allocation of labour by acting monopolistic. Hence the extent of membership of trade union represents strength of organised labour. It has also been argued that data on trade union mobilisation such as number and intensity of strikes provide important and complementary information (Flanagan 1999).

As trade unions are interest aggregating organisation, their strength is influenced by the extent of fragmentation or centralisation. As in the case of business organisations greater centralisation as in corporatist structure increases the strength of labour in policy formation and implementation. Naturally fragmentation in trade union movement decreases the strength of unions.

The power of trade unions is also affected by the economic system which can be narrowed down to differences in terms of ownership (public-private). There is general acceptance that power of trade unions and business is inversely related

and as greater share of private sector increases the strength of business (chapter 5) it decreases that of trade unions. There is empirical evidence of positive correlation between extent of public sector and trade unionism (Ramaswamy 1989). Moreover, as Heller (1984) points out the impact of trade union in developing economies largely operates through the public sector and government decision on wage is likely to affect 15 to 40 percent of the employed workers in urban labour market having a pervasive 'leverage effect' on domestic wage cost.

Finally trade union strength across the sub-national states may vary due to wider political dynamics specifically the nature of linkage between unions and party in government. Government may influence the outcome of bargaining through policy interventions due to its ideological and political orientation. Pierson (1994) has pointed out during economic reforms trade unions may be accommodated through benefits or marginalised by new reform coalitions depending on government approach to reforms. Such a possibility is greater in the context of transitional economies characterised by historical-institutional legacy of state control. As such power of trade unions can be argued to depend on the distance between policy preference of government and trade unions. To put it in specific terms, the difference in policy preference of trade unions and government as reflected in disputes in the public sector indicate relative influence of trade unions. Greater distance in policy preference represents lower influence of trade union in government.

The brief discussion on trade union strength and behaviour provides the theoretical framework to interrogate sub-national variation in labour market reform through strength of labour. The primary objective for such an exercise is to decipher the role, if any, of trade unions in explaining the sub national variations in labour flexibility. Implicit in such an effort is the recognition of multi-causal nature of labour market reform.

3. Trade Unions and Labour Flexibility: accounting for sub-national variations

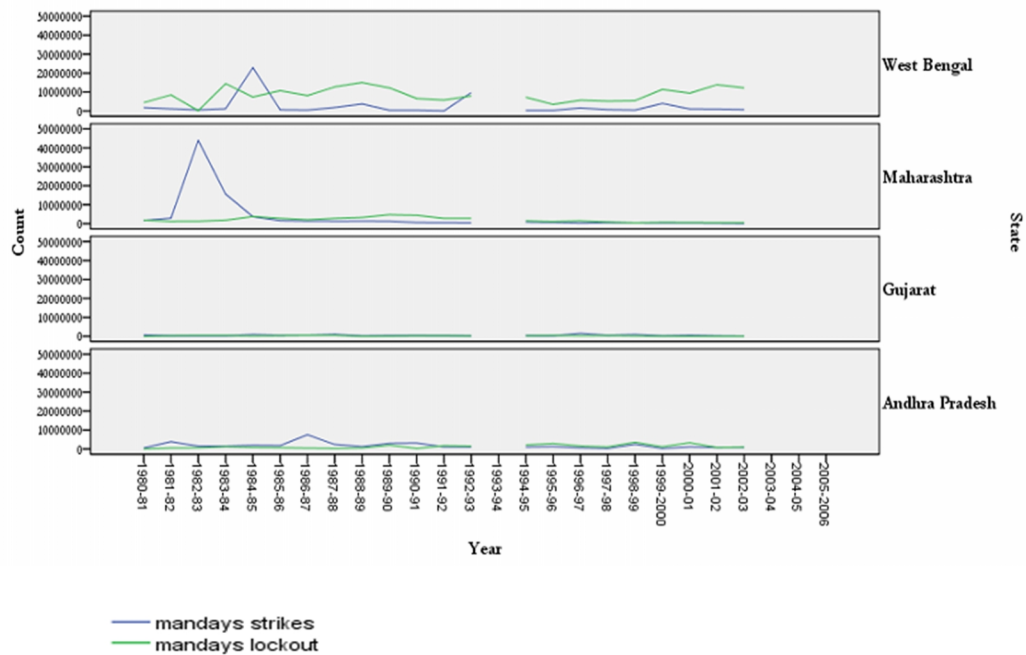
Before analysing trade union movements as a potential explanation for variation, it is necessary to highlight the scarcity of coherent and reliable data on trade unionism. Bhattacharjee (1999) has rightly pointed out that trade union membership data in India are notoriously unreliable as there is a political economy to its collection and presentation. Apart from irregular submission of data which reflects the lack of professionalism and apathy of the state; different sub-national states follow different criteria for data collection (data on average membership available only for the states of Maharashtra and Gujarat while Andhra Pradesh and West Bengal provide data on the number of new unions registered in a year). That is why most analysis of trade unionism has to either resort to using proxy variables in quantitative analysis of labour movement or undertake a micro qualitative study. This chapter takes recourse to both quantitative analyses of proxy variables as well as qualitative secondary research.

Primary data is collected from Indian Labour Yearbook and Indian Labour Statistics published by the Ministry of Labour, Government of India. Moreover, Statistical Abstract published by Government of India and National Sample Survey Organisation data from 50th round and 55th round provide some data on the extent of unionisation. Additionally interviews of activists from leading trade unions and secondary literature have been used.

3.1 Powers of trade unions: organisation and mobilisation

Analysis of relative strength based on membership of unions across the states is difficult given the absence of comparable data. Most literature on unions uses data on industrial disputes, specifically strike and lockout data, to derive conclusions about unionism.

6.1 State wise data on share of mandays lost due to strikes by lockouts, 1984-2006



Source: Indian Labour Statistics (various issues)

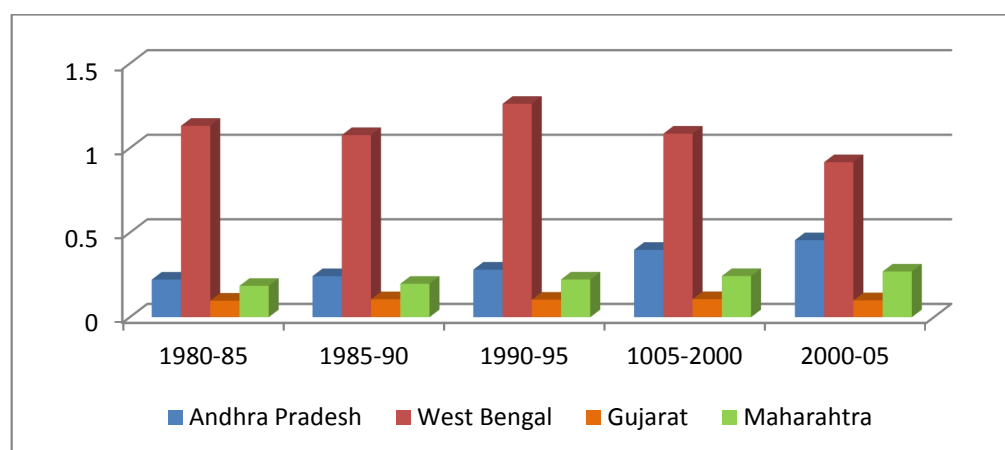
Existing literature on trade unions use data on mandays lost due to strike and lockout to estimate the relative strength of business and labour as a strike is initiated by labour while the lockout by management (Datt 2003). The data can be considered as a proxy for relative ability of labour and capital to extract economic costs. The data on mandays lost due to strikes and lockout reveals that strikes have been decreasing compared to lockout across the state. Interestingly mandays loss due to industrial disputes has been lowest in Gujarat with no significant difference between lock out and strike. In West Bengal contrary to the image, lockouts seem to outweigh strikes across the period except for a brief period in 1980s. Gujarat and West Bengal represent the two extremes in industrial relations in terms of disputes. In Maharashtra and Andhra Pradesh, industrial disputes appear to be on the decline largely due to declining strikes.

Such a trend has led many to deduce that employer militancy has been greater across the states over the years indicating declining powers of trade unions particularly in West Bengal under left rule (Datt 2003). However it is important not

to conclude about the power dynamics between labour and capital from industrial disputes as strikes and lockout are both reflection of industrial relation as well as overall economic situation. Lockouts can be the outcome of employer assertion as well as deteriorating viability of industry. Similarly, strike can be the assertion of organised labour for demands or a purely political gesture of a politicised union movement. Banerjee (1998) has shown that the jute industry singularly accounts for majority of mandays loss in West Bengal and accounting for the sick jute industry there is **not** much difference in labour militancy between Maharashtra and West Bengal.

A simpler and straight forward way to measure the extent of trade unionism is to measure trade union density. The number of trade unions normalised by the number of industrial units indicates, in the absence of membership data, spread of trade unions. Theoretically, it can be assumed that greater presence of trade union creates consciousness among workers and facilitates mobilisation. Such a measure, although limited as it does not consider multiple trade unions (under the industrial relations system in India till 2001, only 7 people in an industrial unit could form trade unions) or sectoral division of unions, nonetheless provides a macro picture of the extent of trade unionism.

6.2 State wise density of trade unions according to industrial units, 1980-2006



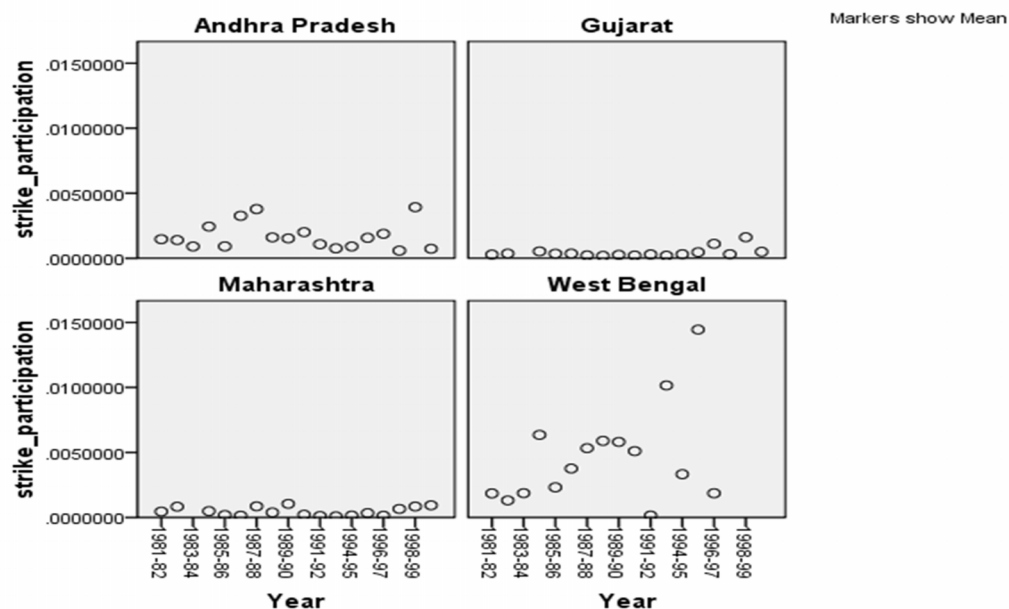
Source: Authors calculation based on Indian Labour Yearbook (Various issues)

As the graph reveals, the average number of trade unions is greatest in West Bengal which at times is greater than 1 indicating extreme fragmentation of unions. Although the period since late 1990s reveals a declining trend, average unionism remains very high in the state. Among the remaining states, unionism is higher in Andhra Pradesh and indicates an increasing trend since 1990s followed by Maharashtra. Gujarat has lowest levels of unionism indicating weak organisation of labour.

The extent of trade unionism is lowest in Gujarat covering only about 10 percent of firms which remains static over the period. In Maharashtra union presence is in about 30 percent and appears to increase rather slowly after the massive de-organisation of unions in early 1980s. Andhra Pradesh has comparatively higher trade union density which varies around 40 percent and reveals an increasing trend. Broadly trade union presence is highest in West Bengal followed at a distance by Andhra Pradesh, Maharashtra and lastly Gujarat which confirms conventional understanding.

In light of the limitations of existing measures, the chapter takes recourse to trade union mobilisation. Power of trade union is derived from the extent of membership and ability to act as monopoly supplier of labour. Hence data on collective mobilisation during industrial action has the potential, to indicate trade union strength. Such a measure i.e. average worker participation in strikes normalised by the total number of workers in the economy indicates the extent of workforce under direct or indirect control of labour movement. Considered over a long period to accommodate state specific exogenous variables, the average strike participation is a coherent measure of relative strength of unions. The average strike participation is measured by calculating average workers participating in industrial actions normalised by total organised workforce. The greater the number, the greater we can assume is the support for trade unions.

6.3 State wise worker participating in strikes normalised by average daily employment, 1980-2005



Source: Authors calculations based on Indian Labour Yearbook (Various Issues)

Strike Participation measured by proportion of total workers involved in strike reveals that trade unions mobilisation has declined over the period which confirms weakening of labour as pointed out in existing literature. Sub- national study of worker mobilisation reveals that Maharashtra and Gujarat are marked by comparatively low strike participation which has declined even further since mid-1980. There is some indication of increasing worker mobilisation in the period after 2000. Extent of worker mobilisation is highest in West Bengal although a sharp decline can be identified since the period of liberalisation. Andhra Pradesh on the other hand is marked by intermediate levels of mobilisation with some degree of variation. The table below presents data on trade unionism, measured through union membership as a proportion of the total workforce.

6.4 Data on Unionisation in Urban India based on NSS, 1993-94 and 1999-2000 calculated by Jha (2005)

Year	State	Manufacture	Average
1993-94	Andhra Pradesh	23.9	53.90
1993-94	Gujarat	22.4	41.10
1993-94	Maharashtra	37.8	43.00
1993-94	West Bengal	43.2	61.40
1993-94	India	26.3	49.10
1999-00	Andhra Pradesh	26.65	58.52
1999-00	Gujarat	18.04	64.33
1999-00	Maharashtra	19.22	61.42
1999-00	West Bengal	25.2	59.21
1999-00	India	19.04	52.97

Source: Jha (2005)

Thus, the data reveals comparatively greater collective mobilisation in West Bengal confirming popular opinion. However the state is also characterised by declining trends since 1990. Trade unions emerge stronger in Andhra Pradesh compared to Maharashtra and Gujarat and interestingly reveal an increasing trend. The states of Maharashtra and Gujarat appear more or less similar in terms of labour mobilisation during the period although the extent of unionism is greater in the former. The assessment about relative strength of trade unionisation is somewhat corroborated independently by Jha (2005) who has calculated the extent of unionisation from NSSO data for the year 1993-94 and 1999-2000.

The discussion of trade unionism in the selected states provides us with some contradictory images. West Bengal appears to have the highest labour mobilisation and yet lock outs constitute greater amount of mandays loss. Similarly, Gujarat has lowest labour mobilisation and yet strikes outweigh lockouts. Collating all the potential measures of union strength it becomes evident that trade

unions have witnessed a significant decline in their spread and strength. Comparatively trade unions are strongest in West Bengal and weakest in Gujarat which corresponds with the situation in labour market flexibility. However, the situation in Maharashtra and Andhra Pradesh do not appear to account for variations as unions appear stronger in the latter compared to the former. Despite higher union mobilisation and presence, the capacity of trade unions to impede labour market flexibility appears to be lesser in Andhra Pradesh compared to Maharashtra. Thus, mere organisational strength of trade union does not explain the variation in labour market flexibility across the selected cases.

3.2 Power of trade unions: level of bargaining

As pointed out in the theoretical discussion the strength of trade unions is not merely conditioned by the membership and it may be instructive to look into other factors that determine the strength of organised labour. There exists considerable literature on the determinant of trade union power that emphasise on the importance of level of trade union bargaining and legal prerogatives. It is argued that small, fragmented organised labour generates weak pressure. When trade union is very powerful and centralised it moderates demand as it is part of the decision making aware of greater economic costs. Only when trade union is moderately strong at the sector or industry level they exert aggressive pressure for achievement of demands. Hence, differences in the level of union bargaining may lead to variations in trade union strength across the sub-national states.

Data on level of trade union bargaining is not readily available, and as such this dissertation takes recourse to secondary research findings. The extant literature on trade union in India provides theoretically and empirically robust arguments that can potentially reflect on the level of bargaining.

Analysing the divergences in wage share across industries and continued fragmentation of trade unions Bhattacharjee (1999) concludes that occupational and skill differences have led to increased differentiation between trade unions. Based on his case study of trade unionism in West Bengal and Maharashtra he argues that high skilled industries in Maharashtra were marked by independent trade unions which opted for increased wage in the wage-employment trade off. In contrast, the traditional and declining industries in West Bengal were marked by political unions which opted for employment due to lack of employment opportunity and direct relation of membership to bargaining capacity. Consequently greater proportion of industries in Maharashtra has opted for firm level bargaining compared to West Bengal. Miyamura (2001) has also argued along similar lines to suggest that company based unions are more predominant in industrially dynamic areas where as less dynamic areas have party based unions. He argues that dynamic regions provide strong incentives for unions to seek company based 'rents' rather than political rents that are more attractive in less industrially dynamic regions.

Following Bhattacharjee (1999) and Miyamura (2010) it can be argued that company based unions are expected to be predominant in industrially vibrant Gujarat and Maharashtra compared to Andhra Pradesh while West Bengal is more likely to be characterised such political unions. Micro level study of trade unionism in the states corroborates such a claim with greater prevalence of company based trade unions in Gujarat and Maharashtra followed by Andhra Pradesh (Davalala 1992).

In terms of bargaining behaviour, company based unions are confined within firms as unions without explicit political agenda have a general tendency to perceive themselves as professional organisations with a given function defined within the limits of the company. Thus, company based unions are not only limited

by their limited scope but also orientation towards issues of labour and capital. Hence the capacity of such trade unions to influence policy outcome, particularly from the macro perspective should be lower. In contrast, political unions are more likely to have industry level bargaining with greater influence at the macro level.

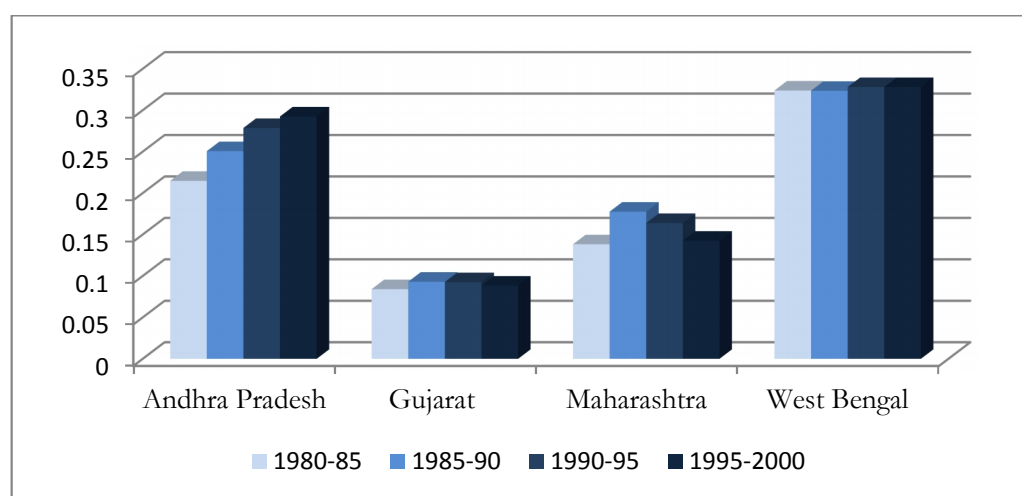
As such, theoretically, the trade union strength based on the level of bargaining should be greater in West Bengal and least in Gujarat. Such an evaluation of strength of trade unions emanating from level of bargaining seems to correspond to the evaluation of labour market flexibility in West Bengal and Gujarat. In the sub-national states of Gujarat and Maharashtra and even partly Andhra Pradesh the relatively greater company based union create weaker bargaining pressures from labour. However, the situation in Maharashtra and Andhra Pradesh remain unclear as company level bargaining is greater in the former but labour flexibility appears lower.

3.3 Trade unions: Historical-institutional developments

A potential source of variation in trade union influence lies in institutional factors like public sector employment and legal prerogatives. Varshney (1999) has argued that organised labour has been able to stall reforms in India in spite of its limited penetration because of control over key economic resources such as public sector. Based on a cross country analysis Forteza (2001) has argued that size of public sector has significant relation to the strength of labour to oppose reforms due to electoral considerations of government. According to literature greater share of public sector in the economy not only constrains the influence of business interests but also augments that of labour. Employment in the public sector provides greater protection and better work condition to labour. Moreover as trade unionism in India relied mostly on large public sector and private sector industries, in states with greater public sector employment unions can have greater leverage in

affecting labour policy. Ramaswamy (1989) has argued that post-independence strategy of public sector investments led to the creation of sizeable organised labour that provided bulwark for public sectors and trade unions. Thus, it can be presumed that greater proportion of employment in the public sector not only implies greater capacity of governments to influence economic outcomes but also greater power of labour to influence outcomes.

6.5 State wise public sector employment in total industrial employment, 1980-2006



Source: Indian Labour Statistics (Various Issues)

The data on public sector factory employment reveals that share of public sector is largest in West Bengal followed by Andhra Pradesh, Maharashtra and eventually Gujarat. It is well documented that West Bengal and Andhra Pradesh had significant public sector led industrialisation. Maharashtra attracted both public and private investment while industrialisation in Gujarat relied more on private investment due to regional political economic reasons. As such workers and their organisation can be argued to be strongest in West Bengal and weakest in Gujarat. However, like the case of trade union mobilisation, developments in Andhra Pradesh and Maharashtra do not correspond to analysis of trade union strength.

Another important determinant of relative power of labour is prevalent legal framework. Legal prerogatives, particularly laws can provide important external fillip to organised interests. To analyse relative position of states in terms of legal issues of labour flexibility the dissertation looks into the labour law amendments brought at the sub-national level. In terms of amendment of labour regulation, West Bengal has most pro-labour amendments followed by Andhra Pradesh. In contrast, the Congress in Maharashtra signifies both pro worker and pro employer amendments since the 1980's. Although during the 1980's pro-labour amendments dominate, since liberalisation increasingly pro employer legislations were brought forward to increase flexibility of labour market.

6.6 State wise Labour Law Amendments

Amendment	Andhra Pradesh	Gujarat	Maharashtra	West Bengal
Pro Labour	8	1	9	22
Pro Employer	4	3	6	0

Source: Authors classification based on P.L. Malik 'Handbook of Labour and Industrial Laws', Eastern Book Company, Lucknow, 2009

As the data reveals, pro-Labour amendments dominate in West Bengal while the situation is reverse in Gujarat. Accordingly labour movement can be argued to be stronger in the former and weaker in the latter that corroborates the analysis of trade unionism in the two states. The states of Maharashtra and Andhra Pradesh are marked by greater pro-labour reform, but in recent years pro-employer amendments seem to dominate. Apparently level the legal protection accorded to labour is greater in Andhra Pradesh compared to Maharashtra. However the analysis of labour market situation in the two states does not seem to correspond. In Andhra Pradesh despite the greater share of public sector and legal protection labour flexibility appears greater compared to Maharashtra.

A potential reason for such non-congruence is the non-incorporation of ideological and political linkages of trade unions. As discussed a crucial determinant of trade union influence is the nature of trade union interaction with government.

3.4 Impact of political ideological context on trade unionism

Historical institutional developments in India has led to significant role for political linkages in determining interest group dynamics. As such power of trade unions is significantly regulated by the linkages to the government or more specifically the political party in government. Although such government- interest group linkage is a structural feature of democracy, in the context of India it is considerably enhanced by the relative weakness of associational groups and historical presence of the state in economy. As revealed in course of discussion trade unions in India have very limited presence and in an institutional framework of 'state dominated pluralism' interest groups operated through partisan channels.

Consideration of political ideological dynamics in determining trade union influence over labour market can be disaggregated into ideological position of trade unions as well as trade union and political party- government linkage within broader political matrix. In India, unionised workers in all sectors are divided between major trade union federations and several independent trade unions. Most of the major union federations are closely affiliated with different national political parties as all major political parties in India have their "own" trade unions. Although trade unions are in general opposed to labour market flexibility surveys and interviews during fieldwork reveal differences in trade union response according to their political position.

For example, both the Indian National Trade Union Congress affiliated to the centrist Congress party and Bharatiya Mazdoor Sangh affiliated to the rightist

Bharatiya Janata Party express their opposition to labour flexibility. However, they are not opposed to liberalisation in principle and simply oppose some aspects of process (Masilamani 1994). Similarly, the Hind Mazdoor Sabha recognises the need for reforms but want a calibrated approach. Naturally BMS and INTUC often tread the path of moderation and cooperation on the issue of reform. The non-political unions such as SEWA in Gujarat focus on small scale and informal workers and seek to improve the condition of labour through negotiated settlements and cooperatives to provide social protection.

In contrast, the left trade unions are ideologically opposed to neoliberal policies and feature at the fore front of such movement (Uba 2008). The two biggest left trade unions AITUC and CITU are totally opposed to economic liberalisation and consider such policy as an attack on the working class and capitulation of India to imperialist domination. However such a broad generalisation of all India trends masks important differences in trade union behaviour across the states and over time.

Important to consider here is the impact of state specific features affecting trade union response, namely the party in power and secondly the relative dominance of different trade unions. For example, in West Bengal the INTUC has participated in struggles and strikes against the ratification of central command which can be attributed to the distinct political economy of the state as well as outcome of trade union competition with left trade unions. Such state specific variation in trade union behaviour has been corroborated by Uba (2008) who looks at the protests organised by trade unions against privatisation. Thus at the ideological level the trade union movement in Gujarat, marked by dominance of nongovernmental SEWA, BMS and INTUC is characterised by conciliated settlement and non-radical trade unionism. Such behaviour can be traced to historical dominance of Gandhian philosophy, and weakness of the left movement.

In Maharashtra, the decline of left trade unions and the emergence of newer and independent unions have led to lesser degree of labour militancy than previous decades while in Andhra Pradesh, the continued presence of left trade unions, especially in the public sector has meant relatively greater radicalism. Trade unions appear to be most radical in their opposition to flexibility in West Bengal owing to predominance of left trade unionism.

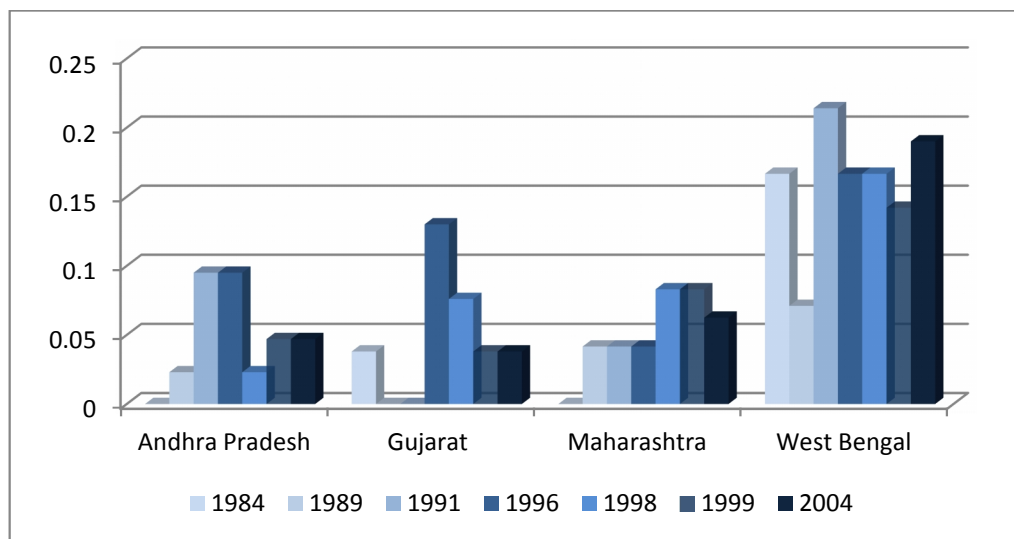
Analysing the dynamics between trade unions and political party, available evidence suggests growing distance between unions and government under conditions of globalisation. As governments across the states, since the 1980's have increasingly adopted neo liberal policies the linkage between party and affiliated trade unions has come under strain. Thus, the ideological and programmatic shift of the political parties especially in government has been a significant variable in the waning of trade union influence. As Uba (2008) points out that all parties long identified with a labour-friendly, left-of-centre, predominantly statist political position, initiated market reforms at their respective levels which points towards a certain convergence over the issue of the need for labour rationalisation regardless of their ideological orientation. This changing orientation of political parties especially when in government has been a significant factor in determining the relative importance of trade unionism and labour policy.

At a partisan level BJP has been increasingly identified with neoliberal policies along with the Congress which potentially explains the greater reforms in states marked by their dominance. The pro-reform parties when in power significantly impede the strength of trade union bargaining. The Left, on the other hand, continues to oppose neo liberal policies and even when left governed West Bengal creates investor friendly environment, the policy orientation is not as pronounced as other states. However the relation between political party and trade union is not a simple as revealed in the increasing flexibility in left ruled West

Bengal after liberalisation or variations in flexibility across states especially Maharashtra and Andhra Pradesh under Congress party government.

A potential measure of political influence of trade unions may be through presence of trade unionist within elected position of political parties. Theoretically one can argue that greater representation of trade unionist within broader political processes would not only increase the access of labour to decision makers but also provide greater support from socio-political forces. In order to analyse the direct link between trade unions and political party we look into data on the proportion of trade unionist elected as Member of Parliament from the selected states during 1980-2004.

6.7 State wise number of Trade Unionists elected as MPs, 1980-2004



Source: Who's Who of Lok Sabha (Various Issues)

The data reveals a remarkable correspondence between representation of trade unionist and the general trend of flexibility across the states. The state with least flexible labour market i.e. West Bengal is marked by significant presence of trade unionists, and the most flexible Gujarat has marginal presence of unionists. Maharashtra represents increasing representation of trade after liberalisation unlike

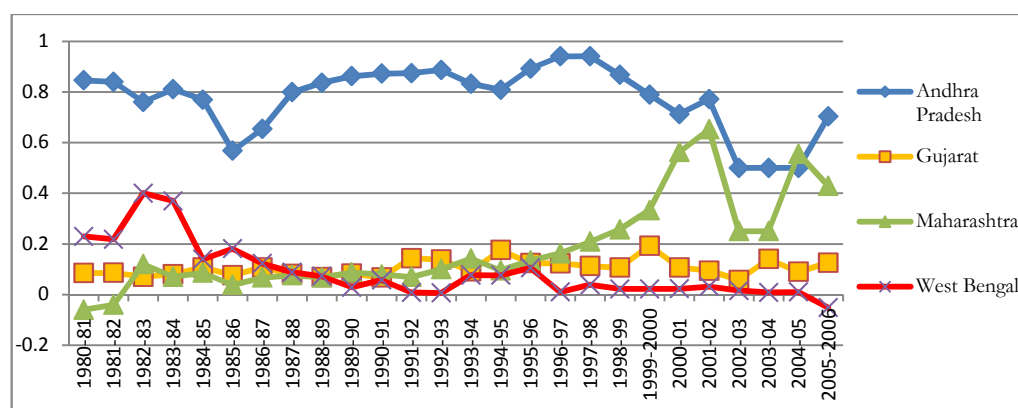
all the other three states where trade union representation has declined since liberalisation. At a casual glance, it may appear that strength of trade union in impeding flexibility is a function of political presence of trade unions. However it may be premature to deduce too much from this data as a careful reading suggests that except for West Bengal, the representation of trade union across the states has been too small to have any effect. Moreover given the dominance of political unions in India such party-trade union linkage does not necessarily imply an increase in the strength of labour as parties in the changed circumstances often use such linkage to maintain control over labour.

Interestingly collating the data on strike mobilisation with trade union representation reveals that after liberalisation union representation in party have worked to tame trade unions. The extent of trade unionists as MPs statistically corresponds with decreasing number of strikes and mobilisation. Thus, the link of trade union to institutions of government appears to contain labour movement and increase flexibility. Independent analysis of trade union opposition also finds that trade unions affiliated with party in power do not actively mobilise and oppose government policies reflecting the logic of political opportunity structure (Uba 2008).

The widening shift between trade unions and political parties is revealed through data on public sector disputes with greater disputes indicating wider rift between government and trade unions. Venkataratnam (1997) has pointed out that before liberalisation, industrial conflicts occurred mainly in the private sector but since 1990's industrial disputes in public sectors have increased significantly due to reform orientation of governments. Such an interpretation in the sub-national context may be suspect due to historical differences in industrialisation, trade union movement and political context. However in conjunction with other data

and secondary literature, it provides valuable clues to understanding the dynamics between government and trade union across the sub-national states.

6.8 State wise proportion of mandays lost in public-sector due to dispute, 1984-2006



Source: Indian Labour Statistics (Various Issues)

The most remarkable outcome is the high level of dispute in public sector in Andhra Pradesh accounting for three quarters of all mandays lost since 1980s. This is indicative of schism between trade unions and government leading to direct conflict and potentially explains high flexibility in the state despite significant levels of unionisation. Qualitative evidence of reform confirm that Andhra Pradesh is at the forefront of public sector reform which has been vigorously but unsuccessfully opposed by organised labour (Mooij 2005). Importantly public sector disinvestment or relaxation of labour provisions is not merely a matter of economic choice but also a political choice by the government.

Thus, the case study reveals that the orientation of the political parties especially when in government varies between the cases which directs attention to broader political variables. The conflict appears to be least in West Bengal which can be attributed to the ideological and political congruence between left government and trade unions. Interestingly the disputes in public sector also appear to be low in case of Gujarat which in the light of high levels of flexibility

can be explained through the low levels of public sector in the economy and weakness of trade unions. In Gujarat and Maharashtra the extent of mandays lost appear somewhat similar and exhibit upward trend since liberalisation which reflects the growing tension between trade unions and government. Interestingly in Maharashtra the extent of public sector dispute remains low till the mid-1990s and witnesses a sharp increase thereafter.

Specific study of party and union relation suggest that distance between the two has increased significantly after liberalisation across all states. Even though, sub-national comparison presents West Bengal as being characterised by low party-union dispute, Bhattacharjee (1999) has pointed out that growing distance between the CPI(M) and its labour wing CITU since the mid-1990s as the government sent strong signals to the trade unions to accept the requirements of industrial regeneration. Similarly, the BMS General Secretary Hasmukh Dave in an interview with the Frontline magazine criticised the BJP led NDA government as being hasty and more reformist than previous governments. He expressed disappointment at BJP implementing the very anti-labour policies they opposed while in opposition.

. Broadly the analysis of linkage between party and trade union it can be pointed out that at a relative level trade unions have greater leverage in influencing policies in West Bengal and least in Gujarat. In Maharashtra increasing government-trade union difference can be argued to limit the influence of trade unions although to a much lesser degree than in Andhra Pradesh. However at an absolute scale trade unions have declined in their influence over political processes as well as parties. As Burgess (2004) has pointed out political parties in transitional economies have strong incentive to renege on their commitments to labour when in office due to changes industrial production, liberalisation of the economy and transformations in partisan support as traditional identities become fluid. The

theme of trade unions and partisan support will be discussed in subsequent chapters.

4. Trade union and labour flexibility

The discussion on trade unions across the sub-national states in the context of labour market flexibility presents some interesting outcomes. The analysis of the different parameters reveals that in general trade unions are on a decline which in some states (Maharashtra and Gujarat) predates economic reforms of 1990. The decline in trade unions appears to have gathered pace under conditions of liberalisation. Thus, any analysis that emphasises on the importance of labour in the determination of public policy is either largely exaggerated or contextual. It is necessary to point out that there exists remarkable unanimity among scholars regarding the weakness of trade unions in India and even the most vocal critics claim that TU are organisations of small labour aristocracy. According to the World Labour Report 1997-98, union membership as a percentage of non-agricultural labour in India declined from 6.6 per cent in 1985 to 5.5 per cent in 1995 and from 26.5 per cent to 22.8 per cent as a percentage of formal sector workers during the same period.

At a comparative level strength trade unions appear to stronger in West Bengal, followed by Andhra Pradesh, Maharashtra and Gujarat in terms of organisational strength. The condition of trade union in in West Bengal and Gujarat corroborates the extent of labour flexibility in the state.

An important variable in determining the extent of trade union influence appears to be the share of private sector in the economy. The case study reveals public sector has an significant role in determining the strength of trade unions as it constitutes the major source of employment in the organised sector and trade unions are able to exploit the dual position of their employer as monopoly

provider in services critical to the smooth functioning of the economy and the enforcer of protective labour legislation (Bhattacharjee 1996). However despite greater organisation strength and larger public sector compared to Maharashtra, labour flexibility stands significantly greater in Andhra Pradesh.

The reason for such an outcome i.e. lower reforms in Maharashtra and higher reforms in Andhra Pradesh despite stronger trade unionism appear to be the reform orientation of government. Such an outcome adds to the explanation suggested in the previous chapter on business influence being determined by partisan orientation. Historically the alliance of trade unions with political parties enabled them to play a vital role in shaping political regimes and development strategies. As such trade union power was determined by political-ideological dynamics of trade unions and political parties in power. In short even though strong trade unions impede labour flexibility, the effectiveness of labour to influence macro outcomes remains dependent on partisan government due to low levels of organisation and fragmentation. The importance of political factors is further augmented by the fact that economic structure in terms of public–private share is a function of broader economic orientation of government.

The importance of wider political dynamics, namely trade union and political party dynamics is anticipated due to historical institutional antecedents. The experience of unionism during the colonial rule and subsequent dirigisme regime after independence significantly shaped trade union behaviour and capacity. It was during the independence movement that trade unions were absorbed into the political movements which ensured dominant political interface of trade union (Shyam Sundar 1996; Sinha 1996). The political linkage of trade unions became more pronounced with the adoption of state led development strategy where the government acted paternalistic and the industrial relations relied on government intervention. As such, trade unions in India emphasised more on state mediated

solutions rather than collective bargaining. Naturally the linkage between trade union and party in power emerged as a crucial determinant of union influence.

Structural changes in economy consequent and reorientation of governments due to political economic reason appear to have significantly altered the capacity of labour. Firstly the transformations associated with globalisation such as mobility of capital, transformations in production, technological revolution and heterogeneity of skills has weakened traditional identity of work as well as workers. All this has contributed to declining base of traditional trade unions. Secondly wider political changes such as spread of mass consumer culture, new social movements, ideological congruity in developmental models and spread of mass media among others have reduced the control of unions over political decisions. Thirdly political parties in government are under increased pressures from emergence of new political alliances to make economy attractive to capital. In face of increasing difference between political party and union, trade unions have become increasingly marginalised. However the marginalisation of trade unions has not been uniform due variations in to party-union relation based on ideological as well as of instrumental considerations. In the context of selected case study, party-union relation appears to be largely determined by union membership, extent of centralisation, representation within political parties, existing legal framework and nature of the economy (Burgess 2004).

In sum, the discussion on trade unionism in the context of labour flexibility across the states shows that strength of organised labour movement is partially responsible for variation in labour flexibility. Such an outcome is in consonance with the conventional inverse relation between the strength of a trade union movement and labour market flexibility. However investigating the sources of trade union strength and influence brings into discussion the wider political dynamics particularly trade union-party in government relation. Trade unions when

faced with reformist government appear to be severely restricted. Further greater representation of trade unionists among institutions of government appears to contain labour movement and increase flexibility. In this context, the relation between union, party and government emerge as an important determinant of reform. Theoretically it can be argued following Burgess (2004) that divergent response of the unions can be explained by the relative power of the party, ability of workers to punish labour leaders for disloyal behaviour and the party's capacity to act autonomously from its government. The first variable shapes the incentive for labour leaders to choose sides while second determines whether the party can prevail over government. In sum trade union influence has a political dimension as policy distance between government-union, nature of union competition and institutional factors such as legal prerogatives seem to determine trade union effectiveness against flexibility.

Chapter 7

Partisan orientation of government

1. Partisan orientation and public policy

The discussion on trade unions and business show that political parties have a significant influence on reforms, not only in terms of framing policies when in government, but also determining relative influence of contending interest groups. As chapter 5 and 6 show, influence of business and trade unions is significantly predisposed by their linkages with the party in power. Thus, wider political dynamics especially political party in power and its interrelation to interest groups emerges as significant in determining policy outcome.

In literature, the importance of political parties has been theoretically endorsed from a structural-functional perspective. Political parties constitute a foundational structure of liberal democracy mediating between the state and diverse societal interests. Such a role is augmented in transitional countries such as India due to historical institutional developments of an interventionist state where government held the reigns of the economy.

This chapter analyses the inter-party and intra-party dynamics across sub-national states to determine the role of political parties in labour market reform. In other words, the analysis seeks to explain how certain interests emerge as dominant at sub-national states leading to definite outcomes. The findings suggest that partisan orientation has a crucial role in determining relative power of interest groups and consequently labour policy and outcome. The conclusion broadly mirrors power resource hypothesis regarding economic-social policies as the nature of support base of party has a direct correlation to the extent of labour flexibility. Thus, the argument corroborates the conclusions of chapter 5 of greater labour market flexibility under regimes with significant representation of business.

However, as evidenced in Maharashtra, the capacity of an interest group to emerge as dominant within the support base of a party is conditioned by the presence or absence of similar politically relevant groups. Hence, partisan orientation is conditioned by the composition of support base, and specific interests have a greater chance to persevere when the support base is relatively homogenous in composition. In short, the presence of interests groups and the extent of homogeneity of support base determine partisan orientation of government.

In terms of labour market, the chapter argues that parties with relatively homogenous socio-economic support base and significant representation of business promote greater reform and flexibility. Conversely, governments in spite of business representation often find it difficult to pursue reforms if, the support base is wide and heterogeneous. Greater labour market flexibility in Andhra Pradesh and Gujarat can be attributed to governments backed by the support base characterised by the predominance of business castes. In contrast, the situation in Maharashtra can be explained through the socio-economically wide support base of regime parties where business influence although present cannot become hegemonic. The situation in West Bengal with lower flexibility can similarly be explained through a regime drawing ideological and political support from non-business and weaker sections of society.

The divergences in the electoral support base of parties across states are the product of interlocking interaction between existing social cleavages and competition amongst parties to enlist social support. In India, historical social reality and political dynamics have ensured that political aggregation develops largely along ascriptive lines, which at times create relatively heterogeneous or homogenous support bases for parties. These divergences in the support base of

parties shape not only orientation of governments across regimes but also across states.

At a theoretical level, the finding suggests that political saliency of economic interests is crucial for determining policy even under conditions of globalisation. Such an outcome challenges contemporary notions of increasing irrelevance of governments and politics in economic policy making.

The argument is elaborated in the chapter in the following manner. The first part briefly deals with the theoretical relation between political party and public policy, particularly labour market reforms. The second section presents the argument for partisan orientation in the context of four sub national states under consideration. The third section lays out the methodology adopted for analysis with emphasis on ideological and instrumental interests of parties in India. The fourth section presents the interaction of political parties in power and labour reforms across the sub-national states. The section presents a descriptive narrative of the evolution of party system and highlights the distinctive features of party system across the cases. The concluding section presents the relation between party in power and extent of flexibility witnessed through distributive and redistributive pressures emanating from support base of parties.

2. Political party and public policy

The importance of political party and broader political system in the determination of policy are well acknowledged in the literature. Political parties reflect and mediate social demands acting as channels of communication between the state and society. The functions of political parties, such as political socialisation, electoral mobilisation, agenda setting, formation of governments, interest representation of sections of society and social integration enable citizens

to participate effectively in politics and determine distribution as well as redistribution of resources in society (De Souza 2006; Hasan 2004).

The importance of policy formulation and implementation is magnified in the labour market. Government has a decisive role in industrial relations and issues such as disinvestment, deregulation and liberalisation with substantial consequences for economy and politics. The conventional relation between political parties and economic-social policies derived from literature reveals two broad strands of arguments, namely instrumental and ideological arguments. While instrumentalist logic presupposes the electoral motive of parties as determining the social and economic agendas of parties, the ideological argument focuses on party ideology as an explanation for the different policies enacted by the government.

Study of political parties has observed almost universally an alignment of social cleavages (religion, class, ethnicity, and region) with parties based on programmatic orientation that is relatively stable. This dissertation considers ideological and instrumental interests of parties separately in order to ascertain the causality of policy variation.

2.1 Ideology as a potential explanation

Political Parties in their simplest form are organisations seeking to utilise the power of the state to pursue certain objectives determined by their ideological orientation. As such ideology of party in power has had a decisive role in determining policy. In the context of labour policy, scholars like Esping-Andersen (1990) and Garrett (2000) have argued a general association of greater state control, extensive labour market regulation and economic closure with leftist parties and free market with neo liberal ideology. It is argued that left parties favour employment growth and expansionary macroeconomic policies while,

parties to the right of the ideological spectrum prefer to reduce inflation and budget deficit due to ideological and partisan interests.

The differences in ideological position of political parties affect the choice of policy and methods to attain socially desirable outcome. For example, parties with neoliberal economic outlook seek to improve the investment climate and reduce the budget deficit whereas parties to the left prioritise employment over budget deficit.

However, ideological explanations for government behaviour have increasingly come under strain as government across the world appear to be constrained by global economic considerations. It is argued that governments increasingly adopt similar policies that expand the scope of markets, empower non state actors and encourage economic interdependence. The new politics perspective conceives socio-economic transformations as emanating from changes of post-industrial society and rejects the relevance of ideology.

Contending the 'end of ideology' argument scholars like Korpi (2003) point out the continued relevance partisan politics as substantial cuts in insurance programs in OECD countries can be largely explained through partisan government. He points out that the risk of cuts in social insurance were significantly lower with left party representation in cabinets and higher for secular conservative-centrist governments.

2.2 Support base as a potential explanation

Parties not only pursue ideological objectives but are also driven by instrumental objective of re-election and expansion of support base. Support base refers to categories of individuals or groups who are relatively stable in their support for a particular party due to programmatic or other factors. Research on party system has revealed that stability of the party system is dependent upon

secure mass base that change rather slowly and despite the wide segment of society that political parties claim or seek to represent, it is possible to identify some of dominant support base for parties. This group alignment of parties is crucial as in a democracies competition among socio-economic groups are manifested through partisan competition.

Thus, analysis of the social basis of parties can reveal instrumental logic of party behaviour in the choice of policies. Social groups like business who control economic resources tend to favour market distribution, but disadvantaged groups like workers and poor favour to alter economic outcomes through political redistribution. Naturally the choice of policy is bound to vary if there are significant differences in the composition of support base of parties.

There exists considerable literature on the politics of reform which focus on domestic class configuration or social networks. The importance of support base is reflected in the literature that views reform as an exercise in political 'blame avoidance' (Bonoli 2005, 164). This strand of argument contends that reforms are attained either through a broad reform coalition to deflect criticism or gradual and strategically tied packages to divide potential opposition (Williamson 1994). Similarly, research on public expenditure and taxation in America such as Quinn and Shapiro (2004) find support for partisanship thesis. Hence government policies regard reforms can be found to vary according to the nature of socio-economic support base of the party in power.

It is necessary to point out that there exist broad correspondence between ideological orientation and nature of support base. The extensive research on party system has revealed that stability of the party system is dependent upon secure mass base and party commitments (ideology) that change rather slowly ensuring stability in the competing balance of parties (Petrocik 1999). Despite such congruence, this dissertation considers both ideological and instrumental interest

of parties separately as in the context of economic reforms ideological position of parties is often unclear. To put simply, the necessity of considering support base and ideology separately is due to the relative lack of ideological differences between parties.

3. Determining party behaviour: ideological orientation and support base

To determine the ideological position of parties this research follows the widely accepted methodology of looking at party manifesto and policy statements. However, since labour reforms do not feature prominently in policy statements of most parties, actions of the partisan governments are also considered in the analysis.

Conventional understanding suggests that left parties are opposed to globalisation due to their political-ideological dispensation and consequently oppose labour market flexibility. The ideological distinction among the non-left parties in matters of reform, however, appears remarkably marginal. Suri (2004a) in his analysis of 2004 parliamentary elections in India points out that although economic reforms had been an electoral issue, the differences among main political parties namely Congress and BJP (Bharatiya Janata Party) was regarding implementation of economic reforms and not against the reforms as such. Political observers point out that the electoral defeat of the reformist National Democratic Alliance in 2004 was not a verdict against reform as there is consensus on the basics of reform between main parties. Interestingly, regional parties like TDP (Telugu Desam Party) in Andhra Pradesh which opposed economic reforms, became a champion of reform once in office. As such, ideological distinction appears to lose its edge under conditions of globalisation when parties are in government.

Although structural pressures emanating from economic transformation are important, such an explanation of government behaviour is limited due to the non-incorporation of instrumental understanding. In other words, the structural pressure argument reduces the role of political agency and does not elaborate or explain how political parties implement reforms that may come into conflict with their support base. Political parties represent different social interests and satisfaction of support base demand is a crucial electoral imperative for parties. As Sinha (2005) points out, parties represent different social cleavages and the party system are organised along dominant social cleavages in a society. The salience of such social cleavage is dependent upon the number of factors such as degree of cross cutting of cleavage in society, social stratification and ideological position of parties.

In this research, the classification and identification of dominant groups is based on conventional categorisations of caste and class which according to Heath (1999) represent the two fundamental aspect of socio-economy in India. Caste is a hereditary and ascriptive form of stratification which defines communities into thousands of endogamous hereditary groups called Jatis. According to Hindu religious texts the Jatis may be categorised into four broad hierarchical varnas; namely Brahmins, Kshatriyas, Vaishyas, Shudras followed by non-caste untouchables. According to Beteille (1965) significant characteristics of caste are its hereditary nature, the pursuit of traditional occupations, hierarchical rank, and endogamy.

Importantly caste as a hierarchical system of social stratification also has economic implications. According to Mukherjee (1999: 1760) although jati division of society is viewed in the realm of 'cultural' relations, such as inter-dining, inter-marriage, purity-pollution, in economic terms 'the landlords, traders, moneylenders belonged essentially to the high castes, the bulk of self-sufficient peasants, small-

scale artisans, petty traders, belonged to the middle castes and, those at the lowest echelon such as, the marginal peasants, landless workers, belonged overwhelmingly to the lowest castes and the tribes. Thus, there exist overlapping correspondence of caste with class and social groups tend to be largely bound within particular economic classes in India. Based on empirical evidence with approximately 27,000 respondents Vaid (2012) has found tentative congruence between castes and classes at the extremes of the caste system and a slight weakening of the relation over time. She argues a correspondence between manual/non-manual employment divide, with high castes dominating white-collar work and avoiding manual work (Vaid 2012).

The discussion on business (chapter 5) also suggests that industrial classes largely emerge from the traditional trading and business castes and groups with control over capital or land have been historically concentrated among few castes (see Srinivas for ideas of dominant caste and entrenched caste). Thus, caste and class as categories of stratifications share broad congruence at the societal level. As such analysis of support base in terms of caste configuration broadly highlights the socio-economic profile of support base of parties.

The determination of support base of party is derived from literature such as *'Who Voted for the BJP'* by Chhibber (1997), *'United Colours of Congress: Social profile of Congress Voters'* by Heath (1999) and Yadav (2006) which analyse the support base of parties based on voting in elections. There exist substantial literature on political parties at the sub-national level such as Palshikar (1996), Suri (2004), Alivelu (2009) and Shah (2002) that discuss political competition and support base of parties. In addition, analysis of support base of parties is attempted through the proxy variable of parliamentarians elected across the states over the period 1980 to 2004. Candidate selection by parties are a reflection of their support base as

candidates mirror the political belief and share descriptive characteristic similar to those they represent.

In this context, few clarifications are required regarding the choice of Member of Parliament in place of Member of State Assembly for sub-national analysis. Firstly, data on M.P's is easier to collect given the Lok Sabha Secretariat publishes list of members titled Who's Who of Lok Sabha with professional and other details. Further the number of M.P's is significantly smaller than M.L.A's (in West Bengal 294 MLA and 42 MP) which make collecting and collating data for four sub-national states over 20 year period more manageable. Finally, M.P's are elected through parliamentary elections across all the states largely on the basis of a national agenda and during parliamentary elections the impact of specific sub-national variables is of much lower magnitude. As such elected members of parliament can potentially indicate the relative domination of various social groups within parties.

4. Labour market flexibility and party in power

The role of political party in economic reforms is much acknowledged in theoretical as well as commonplace understanding. Most analysis on labour reforms seems to suggest a prominent role for party in power. Even in the selected case study, cursory examination suggests a direct relation between ideological position of government and extent of reform as evidenced from higher labour flexibility in Gujarat under explicitly reform oriented BJP and lower labour flexibility in West Bengal governed by an alliance of left parties.

Although party system will be discussed later, it is necessary to mention that since the 1980's political competition in the states has been characterised by continued bipolarisation. In Andhra Pradesh, the main contending political parties have been the regional Telegu Desam Party (TDP) and the centrist national party

Indian National Congress (Congress) while in Gujarat political contestation is between rightist Bharatiya Janata Party (BJP) and Congress. West Bengal and Maharashtra have also been characterised by bipolar political contest, albeit between stable political alliances. In West Bengal, the Left Front coalition (a coalition of left parties with Communist Party of India as the main constituent) was the ruling party for 34 years with Trinamool Congress (since 1999) acting as the principal opposition. In Maharashtra since the early 1990's Congress-NCP (centrist-regional) and the BJP-Shiv Sena (right-regional) are the main actors dominating political space.

A study of labour market reforms across the states as well as across regimes can reflect on the relation between political party in power and reforms. In this context, two main indicators of the relationship between party and labour relations are the legislative amendments and policy stance adopted by the government. Labour law amendments brought by governments and policy interventions constitute the fundamental method of governmental control. To analyse labour law amendments brought at the sub-national level the dissertation replicates the qualitative classification of Besley and Burgess (2004).

7.1 State wise Labour Law Amendments across parties, 1980-2005

State/ party amendment	Andhra Pradesh		Gujarat		Maharashtra		West Bengal
	Cong(I)	TDP	Cong(I)	BJP	Cong(I) NCP	BJP Shiv Sena	Left Front
Pro Labour	0	8	0	1	9	0	22
Pro Employer	0	4	0	3	6	0	0

Source: Authors classification based on P.L. Malik 'Handbook of Labour and Industrial Laws', Eastern Book Company, Lucknow, 2009

The composite data on labour law amendments, between 1980 and 2005 confirms the conventional analysis of BJP as a pro-reform party and the Left Front

in West Bengal as a markedly pro-labour regime. The government of Gujarat under the BJP has sought to relax labour regulation to increase contractual employment and place termination out of scope of Industrial Disputes. In terms of labour regulation amendments at the state level, West Bengal has most pro-labour amendments followed by Andhra Pradesh.

Interestingly, all the pro-labour amendments in West Bengal and Andhra Pradesh were brought forth by the Left Government and the TDP government in the 1980's. Most of the legislations brought forth in Andhra Pradesh were emulated from the extensive pro labour regulations brought in by the Left Front Government. In 1980, the Left Front brought 9 pro labour amendments, followed by 1 in 1983, 3 in 1986-87 and 2 in 1989. In 1987, the TDP government brought 8 pro labour amendments, but post liberalisation the TDP appears to have reoriented its position as the party in 2003 brought 4 pro employer amendments facilitating labour flexibility.

In contrast, the Congress regime in Maharashtra is marked by both pro worker and pro employer amendments since the 1980's. Although during the 1980's pro-labour amendments dominate, since liberalisation increasingly pro employer legislations were brought forward to increase flexibility of labour market. Notably, both pro-labour and pro-employer legislations brought by the Congress party reflect a pattern of balanced legislation whereby the government sends signals to both employers and employees about its concerns. For example, significant flexibility in labour market was introduced in 2006 by expanding the definition of contract labour, but at the same time the definition of worker in terms of wage was also expanded.

The data on labour law amendments suggest that BJP governments have been at the fore front of labour market flexibility while left governments accord significant protection to labour. However, the situation in Maharashtra and Andhra

Pradesh present a somewhat complicated picture as the government under the Congress, and the TDP appears to favour flexibility, but the extent and orientation varies. Also, in terms of operation of the labour market, the data suggests that flexibility is comparatively lower in West Bengal and Maharashtra than Gujarat and Andhra Pradesh.

Another proxy measure to evaluate the role of parties in labour market flexibility is through government policy towards trade unions and issues of privatisation. As pointed out in chapter 6 the clout of trade unions in India is significantly determined by political dynamics, particularly party-TU linkage and extent of public sector in the economy. In this context, measure of distance between trade unions and government are the extent of disputes in the public sector and government attitude to privatisation. Interestingly, interviews with trade unions across the spectrum, especially INTUC (closely affiliated with Congress) and BMS (closely connected to BJP) revealed increasing inability to influence the government. The Left trade unions particularly in respect of West Bengal also pointed out the same but approached the issue from a wider dynamics of structural compulsions thrust upon by globalisation. However, the extent of public sector disputes, as expected, is least under left regime and most when a significant trade union confronts a decidedly reformist government.

Quantitatively the issue of party attitude towards flexibility can be assessed with reference to policies of privatisation and disinvestment. As discussed in the previous chapter privatisation or attitude towards privatisation has consequences for power of labour as well as determination of wages and work conditions.

The data on public sector reforms reveals that Andhra Pradesh and Gujarat have sought to undertake significant restructuring of the public sector as compared to West Bengal and Maharashtra.

7.2. State wise comparative picture of Public Sector Reform as on 2003

	No. of state public sector undertakings	No. of state public sector privatised	Percentage of public sector reform	No. of workers in state public enterprises
Andhra Pradesh	128	13	67	150,965,000
Gujarat	50	3	48	94,967,000
Maharashtra	66	0	20	230,578,000
West Bengal	82	10 (public-private partnership)	15	153,071,000

Source: Uba, K. (2008). "Labour Union Resistance to economic liberalisation in India." *Asian Survey* 48(5): 860–884.

The data provides evidence of ideological orientation of government as Andhra Pradesh, and Gujarat have proceeded with significant public sector restructuring while Maharashtra and West Bengal seem to proceed relative cautiously on the issue.

Based on the data it becomes clear that the conventional explanation of variation through governing parties explains the situation in West Bengal and Gujarat. However, such an explanation cannot account for the relative variations in flexibility across Andhra Pradesh and Maharashtra. Moreover, explanations based on party in government cannot account for the sub-national variation across same political party, as reflected in Congress party across Maharashtra and Andhra Pradesh. In the former, the Congress regime appears cautious about reforms, but in the latter, the party is significantly pro-reform. As such, it is necessary to consider in detail the ideological and instrumental interest of parties across sub-national states to determine the exact causality.

4.1 Ideological imperatives as an explanation for variation

The left parties are most consistent with their ideological opposition to globalisation. The political-ideological report of 18th Party Conference of CPI (M)

in 2005 argues that globalisation is a natural development of capitalism brought about by the concentration of capital and need for subsequent investment for profits. As such the process leads to jobless growth with deteriorating job security and service conditions. The party is opposed to deregulation of labour market and public sector enterprises. The party favours social control over the economy and the party document explicitly states that closure or retrenchment decisions must be taken by the government with the full confidence of the workers and the management (Communist Party of India (Marxist) 2005).

In contrast, the parties such as Congress, BJP and TDP appear to have reconciled to economic liberalism. Analysing the economic policy of the Congress party from policy document, titled '*An Expanding Economy - A Just Society - Freedom from Hunger and Unemployment*' (Congress 2004) it becomes clear that the party has modified its economic policies from socialist pattern of society to economic liberalism. The official party statement argues that '*Congress policies were modified in response to the changing worlds of '50s and '60s to the '70s and then to the '80s and more dramatically in the '90s*'. The party believes in the potential of economic liberalism for increased growth ('*we can grow at a high rate leading up to ten per cent a year and abolish unemployment, abolish poverty, hunger, illiteracy and ensure universal coverage of primary health care throughout the country, in the next ten years*') but with a strong emphasis on social development ('*at the same time we can make our farmers prosper, and build capacities of our dalits, backward classes, tribals and underprivileged minorities to secure greater opportunities and be enriched, and empower our women*'). The Congress party prides itself as the party responsible for substantial reorientation of economic policies to further the objectives of economic growth along with social justice. Congress opposition to BJP on the issue of reforms is not so much in terms of content as in terms of implementation. The Congress policy document suggests that the BJP government

does not qualify for any characteristics of successful reforms due to lack of clarity and commitment to reform. As the document states, *'unlike the Congress, the BJP had neither the heritage of modernising India, nor of championing the all-round progress of the economy that benefited all cross-sections of our people'*. Thus, in terms of labour market flexibility the party programme suggests a balance between requirements of capital and social needs of the marginalised including labour.

The BJP although critical of reforms undertaken by the Congress is an advocate of free economy and consequently support economic reforms. According to the BJP, the economic policy of state led development rendered Indian industry, services and agriculture non-competitive and disadvantaged. The party had been a critic of socialist pattern of development and planning urging for a liberal economic regime. As the BJP policy statement states that the party is *'opposed the inefficient State capitalism that came about as a result of the collusion between the politicians, bureaucrats and businessmen and was promoted at the cost of entrepreneurial classes'*. Interestingly the party appears critical of liberalisation introduced during 1990's by the Congress government as surrendering to foreign interests and reorients its position vis-à-vis the Congress as the party of indigenous capital espousing Swadeshi (national companies) against foreign companies. Notably, the BJP is not opposed to liberalisation as such but argues for a particular brand of liberalisation where Indian interests would be protected. The criticism of the Congress economic policy primarily stems from internationalisation of the economy and BJP calls for calibrated globalisation. In terms of economy policy, the party seems to adhere to liberal economics with emphasis on fiscal rectitude, moderate inflation, credit availability to industry and disinvestment of the public sector. Such an attitude of the party is also reflected in their policy towards industry and labour where the party emphasises relaxation of labour laws and a healthy capital market

with the objectives of increasing capital investment in the corporate sector (Bharatiya Janata Party 2010)

Unlike the national parties, the ideological position on different issues for regional party like TDP is rather confined. Interestingly the issue of labour and labour regulations does not form any significant part of party objective. There is a superficial mention of labour in the manifesto with emphasis on development of the informal sector and public sector employees. A survey of the TDP policy documents suggests that issues of cultural nationalism, agriculture, rural development, health, and poverty alleviation through state support constitute the main policy priorities of the party. Issues such as women empowerment, pucca houses to the poor, rice at Rs. 2 per kg, clothes to the poor at half the price and centre-state relations have a significant space in party objectives. Thus, the policy orientation of the TDP as far as the stated objectives reveals emphasis on comprehensive and integrated rural development, welfare, social justice with emphasis on backward castes and good governance. As the election manifesto of 2009 states since its inception in 1982, the TDP has provided a lion's share in welfare and development activities to the weaker sections and backward classes. In 1987, TDP created history in rendering social justice to the BC's by giving 20% reservation to local bodies, 27% in the public sector jobs (Telegudesam Party 2009).

Survey of stated ideological position of political parties reveals that except for the left parties, labour or workers do not constitute any decisive ideological category. The Congress party and TDP manifestos reveal a distinct concern for socially marginalised groups addressed through state mediated social welfare programmes. The BJP, on the other hand, appears to rely more on market forces for the overall welfare and favours liberal market model. As such, it can be inferred that labour market flexibility will be significantly higher in states ruled by the BJP

and lower in Left party ruled state. However the position of centrist parties such as Congress and TDP remain inconclusive from such a textual analysis. Moreover, often policy stance of parties is found to vary between in office and out of office situation owing to political and administrative exigencies. As such, it becomes necessary to probe deeper into the relation between labour market reforms and political party in power. Evident from the discussion on reforms across partisan government is the sub-national difference between parties that reflect on the limitations of ideological explanation.

Thus, it may be instructive to investigate the instrumental interests of political parties based on their support base. The argument of socio-economic class bias in reforms has also been corroborated in literature such as Mooij (2005) which points to the importance of support base of parties.

4.2 Socio-Economic Support Base of Parties

To explain the relative variation in government attitude towards labour flexibility, it is imperative to move beyond the simple unilinear explanation and focus on the instrumental logic of party behaviour. The instrumental interest of a party is to satisfy demands of the support base and expand support base due to electoral considerations. The construction of the social base is dependent on pre-existing social cleavages and political contestation. Scholars like Brass (1984) and Manor (2002) have pointed out that formation of ethnic identity among any social group is not automatic but the product of actions taken by elites and favourable conditions arising from the political and economic environments. However once they crystallise they appear to take a life of own.

As discussed in the theoretical section parties with business castes as a dominant constituency in support base facilitate greater labour market reforms. However the influence of business castes within the party is contingent upon the

broader support base i.e. existence of other numerically significant castes. As such parties with relatively homogenous dominant support base with the presence of business promote greater reform. Conversely if, the support base is wide and heterogeneous, governments in spite of business representation often find it difficult to pursue reforms due to the contradictory pressures from support base. The argument stem from a broader logic relating to pressures on government from diverse constituents and parties with relatively homogenous social support find it easier to frame policies because of the relative absence of contradictory demands emanating from support base. When the socio-economic support base of government is wide, concerns of redistribution and welfare tend to dominate exerted by disparate social support base.

The creation of socio-economically homogenous or heterogeneous support base is the product of peculiar pre-existing social cleavage of caste that has broad correspondence with economic position. In other words, the prevalence of caste as a prominent cleavage and party strategy of group alignment according to caste in specific cases lead to regimes with relatively homogenous support base with business orientation. In such a support base, the dominant social groups have largely similar economic and social profile enabling the party to pursue policies unhindered by contradictory social pressures.

This dissertation argues that Andhra Pradesh, and Gujarat have had greater labour market flexibility as the parties in government (Congress, TDP in Andhra Pradesh and BJP in Gujarat) have significant business presence within relatively homogenous social base of support. The relatively lower extent of flexibility in West Bengal can also be attributed to the support base of non-business and marginalised classes. In West Bengal, the support base of the regime is significantly concentrated amongst the rural populace, farmers, workers which enables the government to pursue pro poor, pro worker agenda. Maharashtra provides the

most intriguing situation where pro-reform governments in spite of business presence proceed gradually with reform due to the wide and heterogeneous support base.

The elaboration of the case study across the states and over time reaffirms the arguments and reveals that extent of labour flexibility can be explained through the socio-economic support basis of the regimes. Based on the data the chapter presents state wise analysis of support base of regimes across the sub-national states.

4.2.1 Andhra Pradesh

The high levels of labour market flexibility in the state, particularly since liberalisation, can potentially be explained with reference to the nature of dominant support base of the two main contending parties in the state namely Congress party and Telugu Desam party. Contextualising the extent of labour market flexibility with political developments in the state we can identify certain underlying trends.

The period from 1978-1983 marked the last phase of Congress domination in the state which came to an end with the surprise electoral victory of TDP. The TDP regime witnessed a secular rise in wage share, which reached its peak in 1987-88 from a low of 28.15 percent in 1982-83, and eight pro labour regulations.

However, the wage share began to decline, and labour flexibility appeared to increase during 1989 which coincided with the election of Congress government. The period 1989 to 1994 witnessed a secular decline in wage share.

The period between 1994 -2004 witnessed the return of TDP to power, with the unceremonious removal of NT Rama Rao and election of Chandrababu Naidu as the party leader. During this decade long TDP rule, wage share appears

to decrease, along with the enactment of pro employer legislations. In short labour flexibility appears to increase.

As such one can broadly identify Congress regimes with increasing flexibility and the first TDP government under NTR with decreasing labour flexibility. However the rule of TDP under Chandrababu Naidu since 1994 has been marked with increasing flexibility and policy realignment towards significant labour reforms.

Evidently such variation in flexibility across regimes cannot be explained through ideological position and points to the role of dominant socio-economic support base of regimes.

Politics in Andhra Pradesh has been conventionally analysed in terms of the dominant castes (Kohli 1988; Roy 2007). Analysing the political economy of the state one can identify that after the green revolution in the 1970s, particularly in the fertile region of the state, there was the emergence of agriculture turned industrial class along with an urban educated middle class (Alivelu 2009). However peculiar to the state, the emergent agriculturist turned industrial class was largely dominated by few castes, notably Reddis and Kammas and partially Kapu (Backward Caste).

In the political scheme of things the Reddis, the landowning and industrial caste, dominated the Congress although the support base of the party was broad catch-all. In terms of electoral mobilisation, the Congress relied heavily on the patronage network based on a stable alliance of Reddis and Scheduled castes. As long as the Congress also had the support of the backward castes, it could win elections, but as many backwards moved away from the Congress, its electoral hold on Andhra became precarious (Kohli 1988). Thus, the Congress government had a wide support base that included economically and politically dominant Reddis, scheduled castes, tribes and significant sections of the rural population.

Such a wide and disparate social support base for the Congress meant competing claims on the government, and while the interests of dominant industrial and agrarian elites were preserved, the government symbolically catered to the weaker sections of support base.

Since 1991, the economic policy orientation of Congress changed with liberalisation which suited the dominant industrial interests and also made the party ideologically and politically committed to reform. Such a change coincided with the reorganisation of Congress support base during the 1990 which comprised of economically-dominant Brahmins, Reddis and Vysyas, and Scheduled castes (Srinivasulu 1999). The reorganisation of the Congress support base was facilitated by changes in the party system characterised by the emergence of TDP.

The impact of TDP governments on labour flexibility across the period represents varying outcome. The first TDP government under NTR was marked by significant gains for organised labour. However the TDP governments subsequently in 1994 and 1999 were marked by a sharp decline in wage share and implementation along with legislative changes to increase labour market flexibility.

Analysis of the socio-economic support base of TDP significantly explains the variations in policy change. According to Kohli (1988) the decline of the Congress and rise of TDP in the state could be traced to the rising caste conflict between the Kammas and the Reddis and the increasing disenchantment of the backwards castes during the decade of 1970s. Although the Kammas, a market related rich peasant class proved to be enterprising by modernising agriculture and diversifying into non agrarian sectors, they did not find commensurate share in political power within Congress Party and as such sought to reorient themselves with the TDP (Aivelu 2009).

Although stylistic, such an argument is simplistic as Kammas do not constitute a numerically large caste in the state. Rather the emergence of TDP could be identified with the coalition between the Kammas and the numerically large peasant and backward castes (OBCs) who reacted against the pro dalit programmes of the Congress. Suri (2004b) has pointed out that along with kamma-backward caste alliance, tensions between the national and regional bourgeoisie who supported the TDP, and rise of new educated middle class elites aided the rise of TDP. The economically dominant Kamma caste along with educated middle class formed the backbone of TDP support. That is why the emergence of TDP during early 1980s marks a sharp increase in the representation of business and professionals among elected representatives.

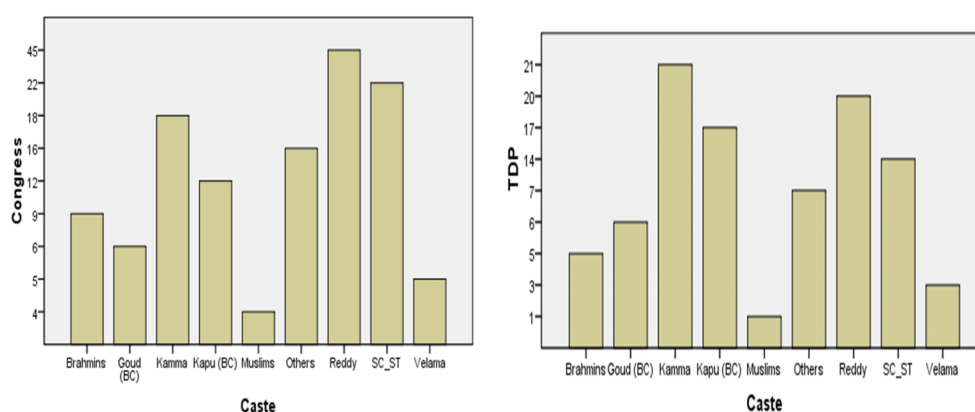
Before liberalisation, the TDP reflected the dominant interests of the regional bourgeoisie, agrarian backward castes and urban middle class which particularly supported the welfare state. Given the TDP had a regionalist appeal in *telegugauravam* or Telegu pride in its discourse, it sought to create a broad platform that stressed on twin theme of populism and regional nationalism. The opposition to Congress party both at the state and the centre contributed to a political stance that highlighted centre-state disputes and welfarism aimed at overall development. Although the TDP portrayed itself as a party of the poor and deprived, its dominant support comprised of the Kammas- the emergent regional agrarian and industrial interest, urban middle class and agrarian backward castes.

However by the early 1990s (liberalisation) the dominant sections within the TDP, particularly the regional industrial class and the middle class reoriented its policy priorities towards reform. The rise of Chandrababu Naidu within TDP was the most apparent sign of such a transformation. Observers of Andhra politics point out that the shift in leadership signified a wider social contestation where the business classes played a crucial role. Scholars like Suri (2004b) and Roy (2007)

point that Naidu represented the business interests and ushered policy realignment by discarding populist policies of NTR. The TDP became downright reform oriented and sought removal of subsidies, privatisation, reduction in welfare expenditure, deregulation which catered to the dominant interests. Importantly this shift was possible due to the congruity of interests in the support base which also explains the significant increase in labour flexibility since 1994 under TDP rule.

Thus, the variations in labour flexibility over time and across governments appear to be a product of the political context and the social basis of the parties. In Andhra Pradesh, the dominant support base of both Congress and TDP appear pro-reform which explains the secular increase in flexibility across regimes. Heath (1999) points out the social basis of Congress and TDP cannot be clearly distinguished in terms of social and economic categories. The discussion on business in chapter 5 of the dissertation also points out relatively greater influence of business in Andhra Pradesh. This domination of business in politics is aided by the relative lack of difference in party support base.

7.3 Support base derived from caste and party affiliation of MPs, 1980-2004



Source: Authors calculation based on Who's Who of Lok Sabha published by Lok Sabha secretariat

Evident from the data is the similarity between the support base of the parties and domination of Kammas, Reddis and Kapu (BC) in politics of the state and the high representation of business castes. The social basis of both Congress party and TDP parties reflects the domination of reddis and kammas in terms of caste composition as well as business as an explicit economic interest. Comparatively the TDP support base is relatively more homogenous than that of the Congress leading to greater reform orientation of the party since liberalisation. The relative differences in the spread of the castes among support base of parties explain the differences in flexibility observed across regimes. In short, relatively homogenous support base with business representation of TDP compared to the Congress explains greater reforms under TDP regime.

4.2.2 Gujarat

The state of Gujarat presents an intriguing situation as labour flexibility appears to be independent of economic reforms and increasing flexibility can be identified since the early 1980s. Analysing the situation in labour market in conjunction with political developments it can be seen that wage share declines from around a high of 31 percent in 1982 to 23 percent in the 1990. This period coincided with Congress party rule in the state after a brief non-congress government in the state.

In the year 1990, a coalition of Janata Party and BJP removed Congress party from government and since 1995; the state has seen consecutive BJP governments with explicit pro reforms orientations. The election of BJP appears to be correlated with labour flexibility as substantial decline in wage share from around 20 percent to 12 percent and secular increase in contractual workers can be identified since 1995. In terms of state level amendments to labour laws, there was

one pro labour amendment in 1972 and one in 2004 while there were three pro employer amendments in 2004. Thus, Gujarat has been characterised by a continuous increase in labour flexibility during the entire period across political regimes.

Analysis of labour market flexibility in Gujarat reveals a trajectory of capitalist development that is somewhat inconsistent with mainstream Indian political economy. The sustained business friendly policies of the state can be explained through the particular configuration of support base that has enabled domination of regional bourgeoisie in politics.

The party system in Gujarat has broadly followed a two party competition except for a brief period during 1970s. Till 1975 the Congress was the dominant party in the state with impressive political organisation bolstered by the legacy of the independence movement. In terms of support base, the Congress during 1960-1975 drew on support from all castes and classes specifically the new class of capitalist farmers who later turned into industrial class (Patidar), the artisan –trader (Bania) class and the backward castes (Sinha 2005). According to Sinha (2005) the pro-development coalition of upper castes, agrarian capitalists and disenfranchised social groups created the institutional frameworks for industrial development of the state. All of these groups acquired political and economic stakes in the rapid expansion of labour intensive industrialisation. The process was facilitated by the near complete hegemony of the ideologically positions between centrist and centre of right parties, the prominence of Gandhian ideology of alliance between capital and labour and dominance of regional bourgeoisie in politics.

After the split of the Congress, in 1971 the caste coalition also broke down as Patels remained with the old Congress and later support Janata Party. The Congress (I) in a strategy of mobilisation developed the KHAM coalition of backwards castes, namely Kshatriya, Harijan, Adivasis and Muslims to counter the

dominance of Bania-Brahman-Patels. Thus, the socio-economic support base of the two parties became largely homogenous and broadly resembled the dominant social cleavages. Interestingly the Congress regime based on support of the economically and educationally backwards sections was also marked by increasing labour flexibility. Scholars like Breman (2002) and Shah (2002) have carefully documented the decline of organised textile industry in the state during Congress rule. Thus, the Congress government exhibited a pro-business attitude even when the official economic policy was based on mixed economy and support base was primarily among backward castes.

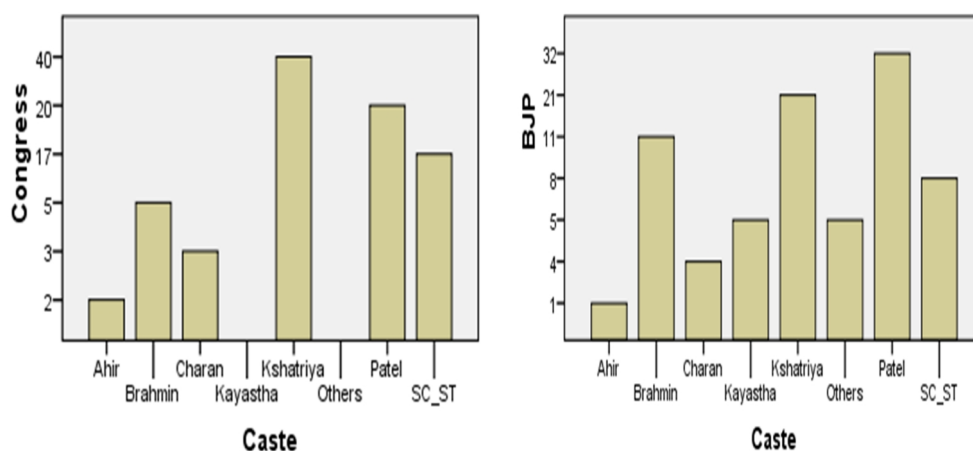
Such an approach of the Congress party, according to Sinha (2005) was due to the benefits of dispersed industrial growth that provided crucial revenue for the government and employment for the masses. Although insightful, such an argument is partial, as it ignores the conscious neglect of labour in the state and considers developmental strategy as a 'class neutral project based on enlightened self-interest'. Any comprehensive analysis of developmental strategy pursued by Congress party should consider the historical dominance of business or capital within Congress.

The data on composition of Members of Parliament reveals that even though the electoral base of Congress was based on marginalised sections, patidar-patels remained a significant influence within the party. However, given the specificity of dominant social basis of the Congress party, the government sought to address the demands of its homogenous social base of socio-economically marginalised through caste reservations for the Other Backward Castes (Wood 1984). Such an attempt to address social redistribution without affecting the growth framework was also due to ideological position of Congress that emphasised on caste cleavages at the cost of class.

The change in the political situation in 1990 with the election of Janata-BJP coalition signalled the political re-emergence of the socially and economically dominant Brahmin-Bania-Patidar coalition (Shah 2007). The support base of government acquired a firm upper class-upper caste concentration that consolidated the interests of the professional class, agrarian and industrial capitalist. Such an assertion is supported by electoral statistics that show BJP support is concentrated among upper castes, middle and upper classes and weakest among Muslims and underprivileged (Heath 2002).

The extent of labour flexibility appears to increase through the period as the government sought to identify itself with pro-reform business friendly image. Chhibber (1997) has pointed out the BJP support in the 1990s can be attributed to its ability to forge a coalition between majority religious community and middle classes and traders. It was a programmatic shift which enabled the BJP to garner the support of the middle classes, who were 'mobilisable' because of their growing disaffection with the political and economic policies pursued by the Congress party. Such a support base has implied fewer contradictory demands from support base, and ability as well as pressure on the government to implement reforms.

7.4 Support base derived from caste and party affiliation of MPs, 1980-2004



The graphical representation on caste composition of MP's suggests that BJP and Congress party are marked by differences in support base. The major support for the BJP emerges from Brahmins, Patel, Kshatriya and Kayastha. The Brahmin-Patel-Kayastha (Bania) constitutes the regional bourgeoisie of the state. In contrast, the Congress although marked by significant presence of Patels and Brahmins, is dominated by Kshatriya castes with a larger presence of Ahirs, Charans and SC-ST who constitute socio-economically marginalised sections.

As such, relatively heterogeneous support base of the Congress with significant representation of Patel and Brahmins meant increasing labour flexibility over the period. The relatively homogeneous support base of BJP marked by the dominance of Patel-Brahmin-Kayastha and peripheral presence of marginal castes has translated into a vigorous reformist regime.

An important question in this regard is the absence of redistributive pressures on the government as it pursues the interest of the dominant socio-economic sections. Although it cannot be denied that industrialisation and economic growth have had benefits, social and economic disparity or deprivation has not vanished. According to Mahadevia development in the state has been highly uneven in terms of regions, sectors and social groups, and while certain sections of the population have benefited and become more prosperous, others have been marginalised (Mooij 2005). The concern for redistributive demands is essential in the context of discussion on labour as issues of wage and work condition can potentially be part of such demands. Importantly the lack or absence of labour issues in the political discourse of Gujarat appears even more remarkable given the expansion of industrialisation.

A potential reason may be the historical weakness of left parties in the state. The importance of ideological concerns cannot be undermined as political competition has been between centrist and centre of right in the state. The main

political parties in Gujarat, even the Congress, has had pro industry, pro capital orientation given historical dominance of capital in the state. The relative lack of public sector investments vis-à-vis private sector since independence was a conscious policy of Gujarat government to further strengthen private capital.

With the rise of BJP, the demands of the disaffected sections of society and social tensions have increasingly coalesced into a majority-minority communal discourse which mutes social groups like tribal, gender, and labour. According to Shah (2007) the anti-reservation riots during 1985 were the crucial point when BJP began to reap the rewards of its mobilisation strategy as caste agitation against reservation transformed into religious riots. Mahadevia (2005) points out the rise of communalism and economic reforms appear to reinforce each other in Gujarat as the two projects are similar in certain respects. The right wing authoritarian style of governance has been helpful in implementing reforms, retaining power in the state and muting redistributive pressures.

4.2.3 Maharashtra

Maharashtra potentially presents the most intriguing case in terms of politics of labour market as it has been one of the foremost states in terms of economic growth and attracting investments and yet labour market flexibility remains relatively low, particularly compared to Gujarat and Andhra Pradesh.

The data reveals that flexibility measured in terms of wage share remains more or less stable until 1984-85 which then declines secularly, especially after the widespread closure of textile mills during 1982. The data on implementation like other states witnesses a steady decline since 1991-92 with the onset of liberalisation. Although the proportion of contractual workers in Maharashtra is lower than Andhra Pradesh and Gujarat, it has registered a sharp increase since 1998-99. In terms of labour regulation, there have been a significant number of

state level amendments. Till mid 1980's most amendments were broadly pro-labour, but recent amendments have been towards increased flexibility as 3 pro-employer amendments were ratified against 1 pro-labour.

Correlating the developments in labour market and policy with political developments, we find that the Congress regime before 1985 increased legislative protection accorded to labour and market condition remains stable in terms of flexibility. However, labour flexibility appears to increase since mid-1980s, which seems to have been the combined effect of partial liberalisation, industrial restructuring in the state and changing orientation of the government.

The period between 1985 and 1990 marked the immediate aftermath of the Bombay Textile Mill strike which challenged the hegemony of the Congress led Rashtriya Mill Mazdoor Union and given its transformative potential was dealt strictly by the Congress government often with intimidation and repression (Omvedt 1983). Broadly, this period was a watershed in labour politics of the state as it marked the emaciation of organised trade unions and paved the way for industrial restructuring. Since economic liberalisation in 1991, the extent of flexibility appears to increase in Maharashtra.

The 1990s witnessed the rise of Shiv Sena (SS) as a state wide political force and BJP-SS coalition came to power in 1995. During the period, both wage share and extent of contractual workers continues to decline, and labour law implementation marked a sharp drop. The increased flexibility during this regime, however, does not correspond to expectations in terms of quantitative increase associated with an explicitly pro reformist government as in Gujarat.

The pace and extent of reform in Maharashtra (lower compared to economically similar Gujarat) can be partially explained through the socio-economic basis of support for the parties in government. Since politics in the state,

in so far as the formation of government is concerned, has been dominated by the Congress party, it is useful to begin the analysis with Congress.

The pre-eminence of the Congress party in the state was based on an alliance between numerically dominant Maratha-Kunbi caste- traditional middle peasant agrarian section and non-Brahmin non-dalit castes politically enumerated as bahun-samaj (Palshikar 1999). However the Congress government also sought to accommodate the interests of socially dominant Brahmins and urban industrial interests because of two reasons, namely the historic importance of industrial-capital in the economy of the state and the Maratha leadership did not enjoy hegemonic support like Bania-Patidar-Brahmin alliance in Gujarat. Thus, the socio-economic basis of support for the Congress was dominated by the agrarian Maratha-kunbi caste but in terms of scope it was wide consisting of diverging interests and claims. The historic presence of industrial capital and organised labour in the state along with a large number of oppositional parties meant the governments had to make periodic symbolic gestures towards different constituencies.

In terms of labour market, such a situation meant protection of some labour interest vis-à-vis capital as reflected through the labour law amendments and stable wage share during 1980-85. The Congress government sought to maintain its support base by assuaging redistributive demands of wide and heterogeneous support base through caste reservations and development boards for backward areas. Like Gujarat, the ideological predisposition of the Congress party significantly influenced the outlook towards redistributive demands from the society. The historic presence of public sector, organised labour and dominance of congress trade unions, largely through legislative measures also implied some protection for labour.

However, the decline of the textile industry and policy of partial liberalisation of the Congress since mid-1980s meant significantly reduced strength of organised labour and ascendancy of industrial-urban interests. According to Palshikar (1999) the increased importance of the industrial sector in the state economy meant agrarian interests became less effective than before which had implications for public policy. During the period 1985-95, the decline in wage shares along with increasing labour flexibility which can be attributed to economic liberalisation and changed policy orientation of the government. However the Congress government with relatively wide and heterogeneous support base consisting of industrial and agrarian elites, middle peasants, other backward castes, rural poor and minorities adopted a gradualist approach despite developments favouring flexibility.

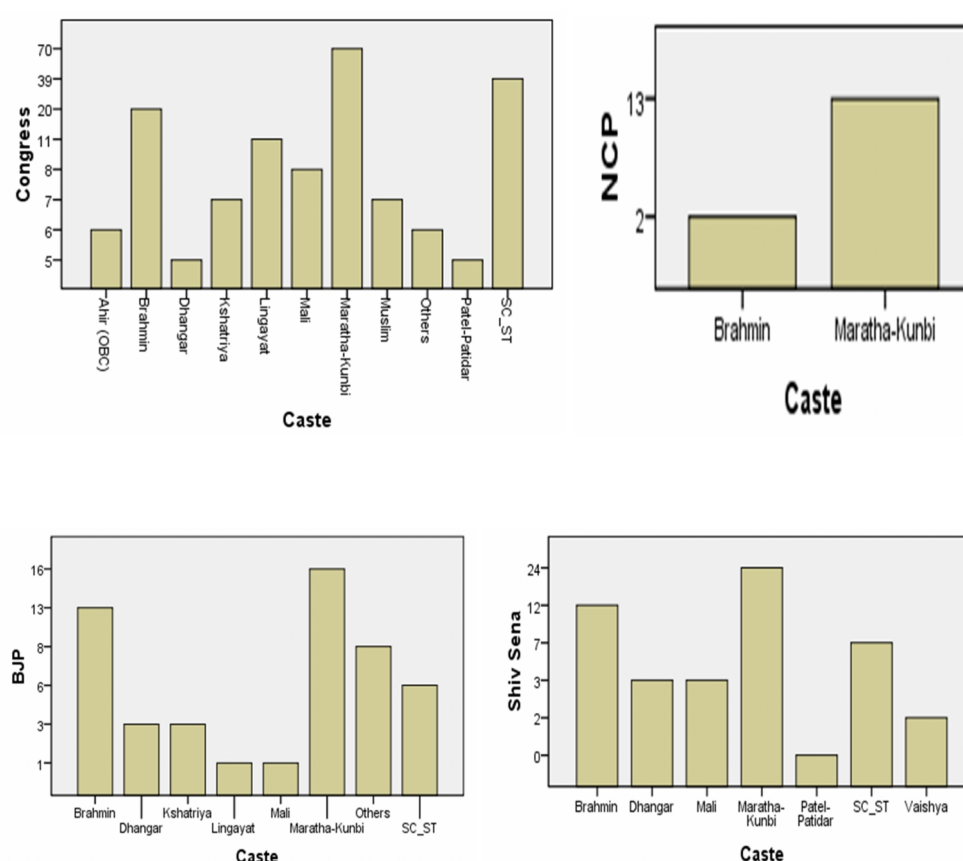
Interestingly contrary to expectation the election of BJP-Shiv Sena government in 1995 did not lead to an increase in the pace of labour reforms. Heath (1999) has pointed out the support base of BJP emerges primarily from upper castes and industrial and urban professional classes and as such the party is more reform oriented. Similarly, Palshikar (1999) has pointed out that ascendancy of BJP-Shiv Sena marked the emergence of upper castes, urban middle class in the political sphere hitherto dominated by agrarian middle peasantry. Such an alliance has been the bedrock of support for reformist governments and hence the pace of reforms in Maharashtra should have gathered pace. The explanation for relatively gradual and slow reform under BJP-SS government lies in the composition of the social basis of support of Shiv Sena which is the bigger partner in the alliance.

The social basis of Shiv Sena is relatively wide as it built upon groups disenchanted with the Congress such as OBCs and sections of Maratha-Kunbi castes (Palshikar 1996). As such, the support base of the BJP-Shiv Sena is only marginally homogeneous than that of Congress-NCP. Analysing the social base of

the parties during 1990s Heath (1999) points out that in general Congress voters are less well off than BJP-Shiv Sena voters although the difference is much less than direct Congress-BJP contest. This explains the BJP-Shiv Sena government policy of liberalisation which was aimed at the industrial and urban interests but balanced by populist slogans for the urban poor.

The support base of the parties based on caste composition of Members of Parliament during 1980-2004 reinforces the argument.

7.5 Support base derived from caste and party affiliation of MPs, 1980-2004



Evident from the data on members of Parliament is the absolute domination, in terms of representation of Maratha-Kunbi caste in the politics of the state particularly within the Congress party. The support base of the Congress

is heterogeneous with significant representation from Lingayat, Mali, Brahmins, Kshatriya, Muslims and Scheduled Castes. The upper castes largely concentrated among urban and professional classes also have sizeable representation in the state. Quite expectedly, the upper caste and urban representation is greater within the BJP compared to Congress. Such a heterogeneous support base meant that industrial interests within the Maratha caste could not emerge as hegemonic. In contrast, the support base of the BJP-Shiv Sena depends largely on Brahmins and Maratha-Kunbi. However, as pointed out the Shiv Sena also derives support from marginal castes such as Dhangar and Mali which provide the alliance greater heterogeneity.

Thus, Maharashtra present a picture where labour market flexibility has increased over the years across regimes; however, the increase has not been as pronounced as Gujarat and labour enjoy relatively better position in terms of wage and legislative protection. An important feature of the state is the relatively low levels of divergence in labour flexibility across the regimes. Such a congruity can be attributed to the wide and heterogeneous support base of regime parties. The electoral relevance of agrarian castes and the wide and heterogeneous support base of parties have meant contradictory interests and claims on the government ensuring gradual and slow reforms.

4.2.4 West Bengal

The situation in West Bengal is distinct from all the other states as the state has been ruled continuously for 34 years by the Left Front- an alliance of left parties with pro-labour, pro-poor agenda. As a government dominated by Communist Party of India (Marxist), the condition of labour in terms of flexibility is expected to be comparatively better than other states and the data on flexibility confirms such an understanding.

The data reveals that till 1991, the wage share appears relatively stable touching of high of 50 percent of the net value added. In terms of regulation, the state has the maximum number of pro-labour regulations largely formulated after the election of Left Front in 1977. The case of West Bengal appears to vindicate the conventional understanding of pro-labour and pro poor agenda of left parties. However after economic liberalisation particularly since 1991 a sharp break in the extent of flexibility can be observed as wage share declines drastically along with an upward trend for contractual workers. Although the extent of flexibility in West Bengal is one of the lowest in India, the increasing trend and overall industrial decline poses some difficult and pertinent questions about the interaction of policy autonomy under conditions of globalisation.

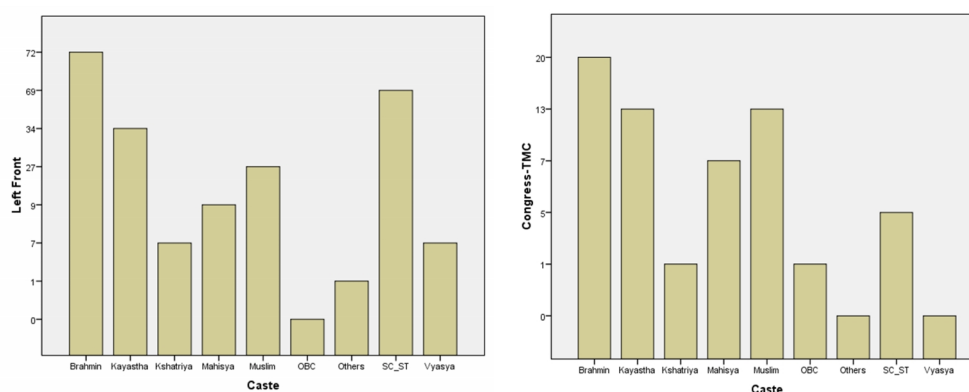
The political dynamics in West Bengal has evolved a separate rhythm of party competition distinct from national trajectory as Congress hegemony was challenged in the state, and first non-Congress government was formed as early as 1967. An important feature of politics in the state has been the domination of the social and political space by the Bhadrak community. The Bhadrak literally meaning well-mannered person is a term originally used to denote the new class who arose during colonial times and largely confined to members of the upper and middle classes and castes of Bengal. The Bhadrak as a cultural construct attributes economic and social privilege on to caste ascendancy most, though not all belong to upper castes, mainly brahmins, kayastha and intermediate castes (mahisya, baidya).

According to Sinha (2005) this near complete domination of bhadrak community meant that industrial elites were precluded from the political scheme of the state. The social position of the bhadrak, in the urban governmental professions and middle class status with the legacy of cultural renaissance, nationalist fervour and Marxism induced ideas significantly radicalised the

ideational discourse in the state. Naturally, business as a class and liberal capitalist model of development has been held suspect in the political dynamics of the state. The overall milieu of the state explains the dominance of pro-labour and pro-social justice discourse in the politics of the state which has been reinforced by the Left political forces (Sinha 2005).

Evident from the data is the near complete domination of bhadrakol community in political representation i.e. Brahmins, Kayastha, Mahisya (middle caste). In fact, the only significant difference between the competing parties is in greater support of marginal castes for the left front and muslims for the opposition Congress-TMC.

7. 6 Support base derived from caste and party affiliation of MPs, 1980-2004



Source: Authors calculation based on Who's Who of Lok Sabha published by Lok Sabha secretariat

The emergence of the Left parties in the state as a dominant political force was largely through land movements in the rural sphere and radical labour movements in the urban industrial sector. The social basis of support for the left regime has largely been based on the alliance between industrial proletariat, urban middle class-poor and the rural peasantry specifically middle peasants, small farmers and landless labour (Chaudhuri, 1987). Thus given the ideological orientation of left parties and their support base amongst the weaker sections of

society particularly labour and agrarian peasantry; the condition of labour and rural peasantry improved significantly.

Development in the context of labour flexibility reveals that wage share during 1980-85 was exceptionally high and state support towards labour translated into a number of pro-labour legislations. The Left Front government could pursue such a pro-labour policy due to the homogenous basis of its social support coherent. Analysis of the election result during the 1990s reveals that in terms of class support the Congress draws support from socially and economically privileged in its contest with the left. The percentage of poor who voted congress was almost half of the rich who did so (Heath 1999). The left government could pursue an agenda of land redistribution, revitalising local government institutions, support for public sector and welfare state as it specifically catered to the main constituencies of social support.

However, with regard to pro-labour policies of the government, it is also necessary to consider that organised labour in West Bengal had become vulnerable during this period due to industrial stagnation. West Bengal had been suffering from industrial decline since 1965 and it is argued that pro-labour stance of the government led to further industrial decline (Dasgupta 1998). As pointed out by Chaudhuri (1987) employment in the factory sector in 1987-88 was even lower than its 1970 census sector employment.

Thus, even though the left front government provided significant legislative and political support to workers, such a strategy as critiqued in liberal market theory limited employment generation (Fallon 1993). However scholars like Banerjee (1998) and Dasgupta (1998) argue that reason for declining investment in West Bengal were more complex with factors such as industrial structure, centre-state relation that led to remarkably little government investment overall economic

recession in India, declining demand for industrial products especially jute and big engineering among others contributing to industrial decline.

As a consequence of industrial stagnation and lack of investment, the left front government changed its policy orientation to stimulate investment and curtailing labour militancy. The CPI (M) as early as its fifteenth state party congress declared its policy of acceptance of private investment and multinationals in investment. The government revived the Labour Advisory Board to strengthen collective bargaining procedures and dissuaded workers from striking. In spite of such attempts, the 1980s saw a steady decline in the industrial situation and the only area in which the Left Front government was able to provide employment was in education, handicrafts and small industries sectors (Chaudhuri 1987).

Economic liberalisation of the 1990s offered new space to state government for industrial investment free from central bureaucracy. However, in the changed context of liberalisation the state governments had to seek investments from private capital. This naturally meant providing incentives to capital, including certain labour market condition which is reflected in the increasing labour flexibility. Such explanation for increase in labour flexibility is nevertheless partial. An important question in this regard concerns the impetus for Left Front government to realign policies towards industrial investment. Sinha (2005) has argued that Left Front in West Bengal could win elections despite the gradual economic decline and pursue a policy of confrontation with the Central government at the cost of investment due to the unique political dynamics of the state which rewarded sub-national tendencies and offered little space to industrial interests in politics.

As such, it is imperative to interrogate the potential factors that guided such a policy transformation. Although structural pressures and need for investment do have a role in determining the extent of reforms and consequently

flexibility, the changing socio-economic social base also appears to have significant influence. As pointed out the left front government emerged on the basis of a stable relative homogenous support base of agrarian interest-small and marginal farmers, industrial working class and professional middle class. Over the years, its social support base subsequently expanded in the rural sector with the expansion of middle peasants, incorporation of bigger peasantry along with marginal peasants. In the urban sector, industrial stagnation significantly reduced the labour constituency of support. Thus, there was a shift in socio-economic support basis of the Left not so much in terms of class but in terms of spatial orientation. Such a reliance of left on the rural sector is reflected in critical perceptions that often point out that left front government had been more committed to rural areas with increasing anti-incumbency votes in the urban and industrial areas (Chakrabarty 1998). A cursory glance of the electoral records reveals that since mid-1980's bulk of left victory was accounted for by rural support base.

In an already handicapped industrial situation with declining employment opportunity for the professional class which had expanded due to welfarist policies created pressure on the government. It was only after the limitations of agrarian expansion and the socio-economic transformation in support base during 1990s that the need for increased industrial investment was translated into policy. This was aided by the emergence of new middle class with rising global aspirations within the Bhadrak community i.e. the professional middle class. Thus, liberalisation provided the state an opportunity to pursue its policy without central intervention but the opportunity was translated into policy when pressure emanated from socio-economic support base.

The electoral verdict of 2001 assembly elections which was projected as the referendum for industrialisation goes somewhat to endorse the argument. Analysing the electoral verdict, Das (2001) points out that urban constituencies,

especially middle class demonstrated its new found support as the Left was victorious in 30 out of 64 urban constituencies. Importantly during the 1998 and 1999 parliamentary elections it was ahead in only in 13 and 18 assembly segments respectively within urban conglomerations. In the industrial segments, the Front won 42 of 81 seats which were significant as in the 1996 assembly election the Front won only in 22 industrial seats. As such structural pressures for investment due to policies of liberalisation and transformations in the support base appear to have created pressures for reforms.

5. Conclusion

Based on the analysis of labour market flexibility and political party in government the chapter frames the argument of partisan orientation. The findings confirm the conclusion of chapter 5 (business) regarding the correlation between business presence in support base and government attitude to reforms. However the ability of business castes-classes to influence policy is determined by the extent of homogeneity or heterogeneity in the support base. Thus, that nature of support base of party is a casual variable in determining government attitude to reform and consequently labour flexibility. In other words, the caste analysis of regime support across sub-national states suggests that socio-economic homogeneity or heterogeneity along with the extent of business representation determines the extent of labour flexibility.

Parties with relatively homogenous dominant support base with business presence find reforms easier to implement than parties with heterogeneous support base. The differences can be attributed to two interconnected factors; firstly a homogenous support base allows parties to formulate coherent and focused policies due to fewer contradictory pressures, and secondly parties with

homogenous support base are more likely to resist interest group pressures compared to parties with heterogeneous support base.

Broadly regimes with relatively heterogeneous socio-economic support base exemplified by the Congress party in Maharashtra tend to reform gradually. Similarly given the predominant socio-economic base of BJP and TDP originating in urban middle class and upper class-caste sections, both the parties appear more reformists and labour flexibility is significantly higher during their regime. In West Bengal the initial pro labour policy, in spite of industrial stagnation was driven the support base of labour, bhadralok community and agrarian sections. It was the transition in economic structure along with support base that led to pro-capital postures by the left government. Hence the role of class based interest in reforms process appears to be significant, and public policies under globalisation continue to be nuanced if not shaped by distributive conflicts between major socio-economic groups.

In this context, the transformation of middles classes across the states and gradual marginalisation of labour require some elaboration. Corbridge (2000) has rightly pointed out that structural changes in the Indian economy led to the emergence of a new middle class who are the beneficiaries of globalisation. As a result, the historic alliance between white collar and blue collar workers was ruptured and explosion of identity-based politics further fragmented labour movement constricting political role of trade unions. Another significant aspect has been the regionalisation of parties in India and its effects on reforms. As the case study suggests national parties in India like the Congress party exhibit regional differences due to variations in socio-economic dynamics. The effect of Congress regime in Andhra Pradesh and Maharashtra, or BJP in Gujarat and Maharashtra, appear to vary due to regional specificities, especially composition of social castes and classes. As such, it is necessary to situate interest groups, socio-economic

classes and political parties within prevalent party system in order to capture the gamut of political influences on policy.

The findings show the continued relevance of political dynamics especially the relevance of class interests in support base of parties in the determination of policies. Such a claim does not reject the conventional relation between economic liberalisation and pressures for flexibility as flexibility seems to increase secularly across the states, but presents a nuanced understanding of reforms being conditioned by both transformations in the economy and the relative balance between socio-economic classes. Although liberalisation of the economy has significantly reduced state autonomy, domestic politics continues to influence the process. It is the relative balance between social classes both in the sphere of economy and politics determine the pace and extent of reforms. Such an understanding is reinforced by the developments in Gujarat where increasing flexibility and industrial restructuring took place much before economic liberalisation. In short not all of reforms can be attributed to structural pressures and political dynamics continues to influence how reforms unfold.

Important to mention is that the formation of socio-economically homogeneous or heterogeneous support base is a function of both existing caste cleavage and nature of political competition. As mentioned, the divergence in caste configurations across sub-national states and specific correlation between caste and occupation has influence on the nature of support base across states. Such an assertion is corroborated by literatures on party system such as Brass (1991) and Yadav (1999) that point out regional variation in caste domination of politics across India. Caste cleavages provide the basis of political mobilisation and depending on existing caste configuration and political competition both economically homogenous as well as heterogeneous wide electoral support bases emerge.

A socio-economic support base is homogeneous if the nature of assets (social and material) that individuals or groups control structure similar rewards from collective action and the members of the group are affected equally and similarly by the asymmetric effects of political democracy on markets and in politics (Korpi 2003). To put simply homogeneity or heterogeneity is determined by the similarity or dissimilarity of groups that constitute core support base of parties in terms of socio-economic position and expectation from public policies. The analysis of such heterogeneity and homogeneity in support base is possible due to the broad correspondence between caste and class in India.

Even though, existing caste cleavage has implications for composition of support base, partisan orientation is not static, and wider party system has a crucial role in the construction of such support base. The extensive literature on party support reveals that partisan linkage to social cleavage may vary due to particular historical political dynamics. The case study also suggests that construction of support base along ascriptive identity is influenced by the prevailing political competition.

Chapter 8

Party system: role of fragmentation and competition in reforms

1. Party system: contextualising political dynamics

The discussion in the preceding chapter reveals that relative variation in labour market flexibility can largely be attributed to differences in support base of parties and interest group-government interrelations. The finding reinforces partisan orientation hypothesis as nature of party in government is found to influence the extent of labour reform. Specifically parties with business representation and relatively homogenous support base are found to undertake greater labour reform compared to parties with heterogeneous base. In states such as Gujarat and Andhra Pradesh, the relative domination of business castes in politics aided by fairly homogenous support base has led to greater labour market flexibility compared to Maharashtra where business interests have to be negotiated with contradictory pressures emanating from heterogeneous support base of regimes.

However, such an analysis needs to be contextualised as parties, and interest groups operate in an environment inhabited by contending forces and their responses are influenced by the logic of opposition and prevailing situation. Evidently broader political system specifically party system provides the framework of choices for both policy makers and social groups. The party system is not only reflective of the dominant social cleavages and prevalent political discourse, it also acts as an intermediate variable that influence the behaviour of interest group and political parties. The literature on party system points out that like all political attitudes; partisanship (support for a particular party) is significantly determined by political alternatives available, both in terms of electoral as well as ideological choice. Budge (1976) has succinctly pointed out that partisan orientation depends

on the presence of parties and extent of party competition. The importance of party system is also highlighted in literature on economic reforms that suggest fragmentation in the party system has implications for reform.

The nature and operation of the party system is not as an exogenous variable but rather endogenous to the operation of interest groups, support base of parties and political discourse. Hence, any effort to understand labour market policies and their operation will have to consider the potential role of party system in the wider context.

Based on the case study the chapter argues that party system has a vital role in labour market reforms as an endogenous variable influencing partisan configurations of support, ideological discourse and instrumental interest of parties. The most attractive outcome of the research is the positive relation between increasing fragmentation in the party system and labour reforms which challenges the established ideas. The conventional theory on the relation between party system and reform suggests that fragmentation impedes reform due to increasing number of decision makers in a democracy. However contrary to expectation, increase in the effective number of parties is found to have a positive relation to the extent of labour flexibility. The positive relation points out the limitations of structural understanding and shows that the impact of fragmentation on reforms is mediated by political dynamics that need to be considered in analysis.

The chapter is arranged in the following manner. Section 1 briefly deals with the theoretical relation between party system and labour market reforms. The second section presents a broad analysis of the party system in India and the four sub national states under consideration. The section provides a descriptive narrative of the party system and highlights their distinctive features across the states. The third section presents the actual case study of the interaction of party system and labour reforms across the states. The final section seeks to explain the

relation between party system and extent of flexibility derived from the cases. In the process, the chapter contextualises the political economic analysis of labour market reforms situating parties and interest groups within wider environment.

2. Party System and Public Policy

The importance of party system emanates from the fact that any policy choice is determined by interaction between social and political actors within specific historical institutional structures. Any policy choice or transformation is the outcome of interaction between ideological and instrumental objectives of party in government within a specific context. However, this policy context of parties is characterised by the existence of oppositional parties and contending interests. Chhibber (1995) points out that an inherent limitation of both ideological and instrumental argument of party behaviour stems from the static analysis while parties operate within dynamic socio-political-economic environment. Similarly, choices of socio-political actors both individuals and groups are significantly shaped by the available political as well as policy alternatives. Naturally in a liberal democracy the nature and operation of the party system provides key insight to any policy change.

Although there are many descriptions of party system in literature, in this dissertation party system is defined following Sartori (1991) as the system of interactions resulting from inter-party competition. As such a comprehensive characterisation party system should consider the *number of parties* and nature of political competition in terms of *ideological distinction*. The classification on the basis of number of parties, however, is not a simple numerical evaluation but rather enumeration of effective number of parties measured by votes received and seats in the legislature. In sum, the understanding of party system adopted emphasises

on political competition both in terms of effective number of political parties as well as the ideological distinction between the parties.

According to literature, characteristics of party system have implications for policy making in democracies. Although scholars differ on the relative importance, broadly, party institutionalisation, scope of party operation (national or regional), party competition and extent of fragmentation are considered significant causal variables in policy making.

Firstly, party institutionalisation refers to the stability of the party system with regard to the presence of stable and coherent parties. An institutionalised party system is marked by the presence of programmatic political parties with a coherent policy orientation. In such a system parties perform aggregative and mobilisation functions and has high levels of legitimacy. In contrast weakly institutionalised party systems are marked by non-programmatic or personality based parties with short-term populist policy proposals. According to Mainwaring (1998) extent of party system institutionalisation is a function of party organisation, stable inter-party competition; stable base of support for party, legitimacy of parties and elections.

In terms of policy making, it is argued that institutionalisation has implications for stability and consistency of public policies. In an institutionalised party system, policy orientation of competing parties is relatively stable and consistent due to ideological and material stability of parties. In weakly institutionalised systems, on the contrary, policy stability is relatively weak due to weaknesses of political parties.

Secondly, in a party system dominated by national parties, national agendas receive greater emphasis both among voters and parties. However, if the party system is dominated by regional political parties, local and sub-national issues dominate the political discourse.

Thirdly, party competition understood through ideological polarisation and the number of competing parties has been considered as consequential determinant of policy dynamics. The literature on reforms suggests that fragmentation in the party system prevents alteration in socio-economic policies by creating a large number of decision makers and hence making consensus elusive. Scholars like Roubini (1989) and Haggard (1995) emphasise on the impact of party competition and claim that reforms are more challenging in a fragmented party system due to policy stalemate.

Similarly, ideological polarity is considered significant for reforms as policy changes are most likely under low levels of ideological polarisation among main parties. Theoretically, governments are able to effectively implement policies on which there exist low levels of ideological difference. Based on a study of the post-communist societies, Horowitz (2008) points out that in strong far-left parties and identity based far right parties have an impeding effect on policy reform.

The discussion on party system and economic reforms remain incomplete without reference to the dynamic two way relation between party system and reforms. Just as, party system has implications for reforms; economic reforms influence the operation of party system. According to Nayyar (1998) changes consequent upon reform have three broad influences on politics, which in turn shape the party system.

Firstly, implementation of economic reform may involve restructuring or creation of several political institutions. These new institutional structures transform the citizen- government interaction and the mediums to negotiate, bargain and control. Clearly such developments have implications for agencies that perform the role of interest aggregation and articulation such as interest groups.

Secondly, economic reforms tend to create a new political culture. At one level, economic reforms are likely to generate a climate of competition aided by

exposure to the international market. At another level, the process may lead to the resurgence of regional or local cultural roots as national identities give way to regional or local identities.

Thirdly, economic reform influences the process of political mobilisation. In an earlier era of populism, promises of economic incentives were widely used to arouse the masses during elections. In the age of 'limited states' and 'fiscal austerity' political parties use sentimental issues of caste, religion or language in electoral campaigns. The literature on reforms also points out the role of institutional features of party system such as electoral rules, nature of political system (unitary, federal) in determining the social and economic policies (Rogowski 1987).

The brief theoretical discussion suggests that party system has serious implications for policy reform in a democracy which needs to be incorporated in reform analysis. The nature of political competition operating in a socio-economic context can provide opportunities for generating as well as constraining demands due to ideological and political dynamics. As such analysis of policy and outcome remains incomplete without analysis of the party system.

2.1 Analysing party system and policy transformation

The theoretical discussion makes it evident that analysis of party system and policy reforms involves a complex multi-layered analysis. The task, however, is simplified in this dissertation due to the research design. Since this research builds upon a sub-national comparative study, the impact of the institutional framework is broadly similar, and as such factors like electoral rules is removed from the analysis. Likewise, party system characteristics especially the extent of institutionalisation and scope of operation also appear to be limited in their explanatory capacity due to their apparent similarities across the selected cases.

As mentioned in the case study section (chapter 4) the selected states are characterised by stable two-party or bipolar competition between stable programmatically coherent parties. The analysis of political parties in chapter 7 also reveals that the party system is fairly institutionalised based on stable support base and programmes. The party system of Gujarat and Maharashtra is almost similar with Congress and BJP as the two principal political actors.

Further there is an increasingly dominant view that since 1990's states have emerged as the relevant unit for parties as well as social identity leading to regionalisation of the party system (Yadav 1996; Sridharan 2002). As such the impact of scope of parties can be considered a secondary order variable in the sub-national analysis of the relation between labour reforms and party system.

Intuitively the potential determinant of party system and reform dynamics appear to be the extent of competition and fragmentation in the party system. In order to interrogate the relationship the dissertation analyses party system through both quantitative and qualitative analysis. The qualitative evaluation about party system is based on a historical descriptive analysis of party system at the sub-national states. Quantitative analysis is based on measuring the effective number of parties as an indicator of the extent of fragmentation and competition in the party system.

The concept of effective number of parties measures the extent of political competition on the basis of parties that have significance for government formation or electoral competition. The number of effective parties is measured by Leaks and Taagepera index which measures parties through the number of seats in the state assembly and votes received in a given election. The quantification of effective number of parties is based on the least arbitrary method of treating vote share or seat share of parties by their own weight and adding such weighted

measures to arrive at a composite number. The data on effective number of parties is derived from Saez (2010) which discusses the impact of political cycles on public sector expenditure in the sub-national states of India.

Further to measure the ideological extent of competition i.e. ideological polarity, the dissertation looks into left party presence in selected states through proportion of votes received in legislative elections. The underlying assumption for such an exercise is the received as well as acquired wisdom that greater left support indicates greater opposition to economic reforms. As the conclusions of chapter 7 suggest ideological distance between non-left parties on the issue of labour reform is minimal. Hence extent of presence of left parties can be considered a measure of ideological polarity in the party system on the issue of labour reform.

3. Party system: historical overview

Analysis of the specific relation between wider party system and labour market reforms require a brief understanding of historical developments. The political-electoral system adopted in India after independence was based on the Westminster model of single member simple plurality electoral system (first past the post) in a constitutionally arranged federal framework.

Discussions on party system in India invariably begin with the Indian National Congress, which was the predominant political association during the independence movement and the foremost political party after independence. In the period 1952-1967, Congress won over two third majorities in the parliament and state legislative elections on the basis of plurality of votes (44-48%) against a fragmented opposition. The only exception was Nagaland, Kerala and J&K (Sridharan 2002).

The dominance of Congress party during this period led Kothari (1964) to term the Indian party system as the Congress System characterised by weak

multiparty opposition to a strong dominant party. The preeminent position and catch all nature of the Congress was possible due to the legacy of the independence movement, heterogeneities in Indian society which prevented polarisation, organisational and leadership skills of Congress leaders, and an elaborate patronage network to build vote banks across communities (Manor 2002; Frankel 1990).

The party system in the states under consideration also reflected a similar trajectory with Congress dominance and fragmented multi party opposition. However, an important divergence despite uniform Congress dominance was the nature of opposition in the states. In Andhra Pradesh, till 1972 the communist parties were the principal opposition in the state winning 51 seats and 19.5 percent votes in 1962 elections. There was also some presence of the Socialists and economically rightist Swatantra Party. Similarly, in West Bengal the Communist Party emerged as the main opposition during this period with Forward Block and Janata Party as minor opposition. On the other hand in Gujarat, economically rightist Swatantra Party emerged as the main opposition in the 1962 and 1967 elections with 24.4 percent and 38.2 percent votes respectively.

In this context, the nature of opposition Maharashtra presents an intriguing picture as the principal opposition party altered every election. For example in 1957, Janata Party emerged as the principal opposition with 36 seats but in 1962, elections the Peasant and Workers Party emerged as the main opposition with 15 seats. Thus, Maharashtra was characterised by more fragmented opposition compared to other states (Election Commission of India).

The break in Congress hegemony occurred in 1967 when opposition parties dislodged the congress in eight of the sixteen sub national states. This period witnessed the rise of bipolarisation of the state party system where single but different opposition parties tended to dominate non Congress votes. In West

Bengal, the first non-congress government was formed when Bangla Congress, a breakaway section of the Congress and the left parties formed the United Front. Even though the Congress remained in office in Maharashtra, Gujarat and Andhra Pradesh, the party system underwent gradual alterations.

In Andhra Pradesh, there was gradual polarisation of opposition parties, and in 1978, the Janata Party emerged as the principal opposition with 28.9 percent of the votes possibly due to the merger of Swatantra, Jana Sangh, Socialists and others. Interestingly the prominence of the left in the state underwent a secular decline from a high of 51 seats in 1962 to 14 seats in 1978 (CPI and CPIM).

In Gujarat, the first non-Congress government was formed in 1975 through a coalition of Congress (O), Bharatiya Jana Sangh, Samyukta Socialist Party, and the Swatantra Party. Similarly, in the year 1978 a coalition government of Janata Party and breakaway congress formed the government in Maharashtra although for a brief period (Election Commission of India).

Observers like Hasan (2004) have broadly pointed out splits in Congress, increasing inability of Congress to mediate cleavages of a heterogeneous society and tendency towards centralisation as responsible for the rise of oppositional parties and political fragmentation. However, Sridharan (2002: 492-495) has pointed to the role of structural factors in the transformation of the party system, namely the systemic properties of the first-past-the-post electoral system operating in a federal polity. He argues that federal polity increases the political attractiveness for a party to be in power at the state level and as such opposition emerged at the sub-national level after the separation of national and state elections. Such an argument although attractive cannot eclipse the political dynamics of growing disenchantment of people with failures of Congress government which sympathetic commentator Manor (2002) calls 'failure in governance' as the principal cause of such fragmentation. Such a tendency accelerated the exceptional

post emergence election of 1977 when the Congress was defeated by a temporary united opposition under the banner of Janata Party.

In the same year Left Front, a coalition of left parties came to office in West Bengal as the Congress was relegated to third position after Janata Party in terms of seats. Since 1977, the left front has formed 7 consecutive governments with vote share of nearly 50%. The four main parties of left front are CPIM, CPI, Forward Block and RSP. Over the year, the Congress increased its seat tally from a low of 20 in 1977 to 82 in 1996 with 39.5% of votes. In Gujarat and Maharashtra, however, both in 1980 and 1985 Congress returned to power with massive majorities. Although Gujarat and Maharashtra went back to Congress fold in tune with national trajectory, there was a break in the party system of Andhra Pradesh in 1983 when the Telegu Desam Party (TDP) swept the elections and came to power. An interesting development in the party system during this period was the slow but steadily increasing prominence of rightist politics through Bharatiya Janata Party (BJP) at the state level.

The period since 1989 has witnessed several independent but simultaneous trajectories in the party system. Firstly, there was a marked increase in electoral competition with the rise in democratic participation. Secondly, there was a shift of level of politics from all India to the states. Such a development was complemented by the rise in number of parties based on regional, ethnic and ascriptive appeals. The rise of regional parties and the shift of level of politics appear to be mutually reinforcing developments as increasing fragmentation of parties particularly regional parties prevented the growth of national parties leading to dominance of coalition governments (Saez 2002). Observers of Indian politics like Verney (2003) and Yadav (2006) have pointed out a sharp and continuous decline in the number of seats contested by the national parties while there has

been an increase in the number of state parties and in the number of seats they have won.

In short, this period was marked by a dual political system with continued bipolarisation of the party system at the sub national level with the multi-party system and coalition politics at the centre (Sridharan 2002; De Souza 2006). The selected states also witnessed increasing bipolarity or two party competitions. In Andhra Pradesh, the emergence of TDP altered the party system as it moved towards two party competitions between Congress and regional TDP. Like Andhra Pradesh, Gujarat has moved towards two party competitions but between the national parties i.e. BJP and Congress.

The political competition in the states of Maharashtra and West Bengal also represent a bipolar competition between two stable coalitions largely homogenous in terms of the agenda and outlook. In Maharashtra, the 1990s witnessed the rise of Shiv Sena as an electorally significant political force and BJP-Shiv Sena coalition came to power in 1995 with vote share of 29.2 percent, a little short than 31 percent of the Congress. In 1999, the state witnessed the rise of Nationalist Congress Party after a split in the Congress and Congress-NCP alliance formed the government. Since then Congress- NCP alliance has continued in office with the BJP-Shiv Sena alliance acting as the principal opposition. In West Bengal, the Congress also underwent a split leading to the formation Trinamool Congress which emerged as the principal opposition to the Left Front relegating the Congress to third position.

Thus, party system in India as well as the states has undergone a transformation from one party dominant system to either a two- party competition or bipolar competition increasingly dominated by regional parties. The Congress system came to an end by the end of the 1980's, and the Indian party system came

to represent multiple bipolarities with two party competitions at the state level and aggregation of various parties at the centre (Yadav 2006).

The fragmentation and transformation in the party system was also contributed by profound socio-economic changes that marked Indian polity since the mid-1980s. Nayyar (1998) has pointed out that political-economic linkage can be broadly divided into three phases in India. The first phase (1947-1966) was marked by a strong correspondence between development consensus in the economy and the political consensus in the polity; the second phase (1967-1990) was characterised by an emphasis on socialism and the politics of patronage and populism; while the third phase (1991 onwards) is marked by market driven capitalism and the politics of segmentation. Analysing contemporary developments Heath (1999: 16) has catalogued four structural features that characterise the recent (post liberalisation) phase of the party system: First, there is a participatory upsurge among the hitherto marginalised sections of society. Second, there is an influx of lower order beliefs, vocabularies and homespun ideologies in the discursive practice of democracy. Third, the contest for manufacturing electoral majorities has resulted in the redefinition of caste identities at a macro plane. Fourth, the sub-national states have emerged as the relevant unit for party and social identity choice.

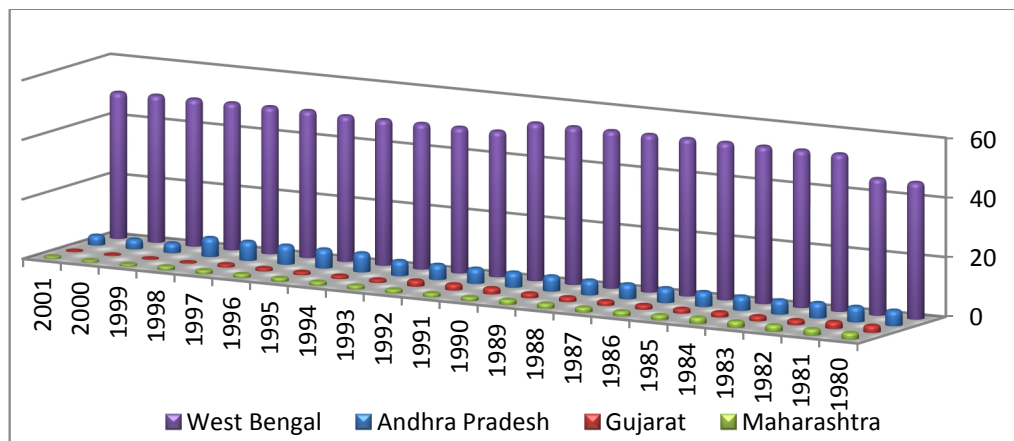
4. Party system and labour market flexibility: research findings

The brief discussion on party system in the selected sub-national states provides the background to analyse contemporary relation between party system and reforms. As elaborated in the theoretical section, the analysis of relation between party system and labour reforms focuses on the extent of party competition in terms of ideological polarisation and number of effective parties as causal variables in determining reforms.

4.1 Ideological and programmatic difference

The discussion on political parties in the previous chapter suggests that programmatic difference especially on economic reforms is marginal among the major parties except for the left. Hence extent of ideological polarity as a potential explanation appears to be weak. However, a persuasive argument suggests that the very presence of left parties in the party system may influence the extent of reforms due to the logic of competitive politics. The discussion on trade unions (chapter 6) also reveals that the presence of left parties has implications for organisation of trade unions as well as prominence of labour issues in political discourse. In short, greater presence of left parties increases the extent of class based discourse and union mobilisation. As such, it may be instructive to consider the relevance of left parties in the party system as a proxy for the extent of ideological polarisation.

8.1 State wise percentage of votes obtained by left parties in elections, 1980-2000



Left parties= communist parties and allied parties with left leaning ideology.
Source: Malhotra and CSDS Data Unit (2003)

The data on votes received by left parties reveals that in terms of electoral presence the left parties are strongest in West Bengal with marginal presence in the other states. At a relative level left parties appear stronger in Andhra Pradesh than

Maharashtra and Gujarat where left has little electoral support. Incidentally left parties have had historic presence in states of Andhra Pradesh and Maharashtra particularly among labour which has largely been emaciated.

The findings corroborate the argument of broader impact of left parties especially in terms of organisation of the working class as the extent of unionisation correlates to proportional presence of the left. It seems plausible to argue that existence of left parties leads to significant organisation of the marginal classes especially labour. Thus, ideological differences within constituents of government or wider political system appear to be a weak explanation for lack of reform in the labour market. Consequently the impact of ideological polarity or nature of competition on labour market reform can be argued to be minimal.

4.2 Extent of fragmentation in party system

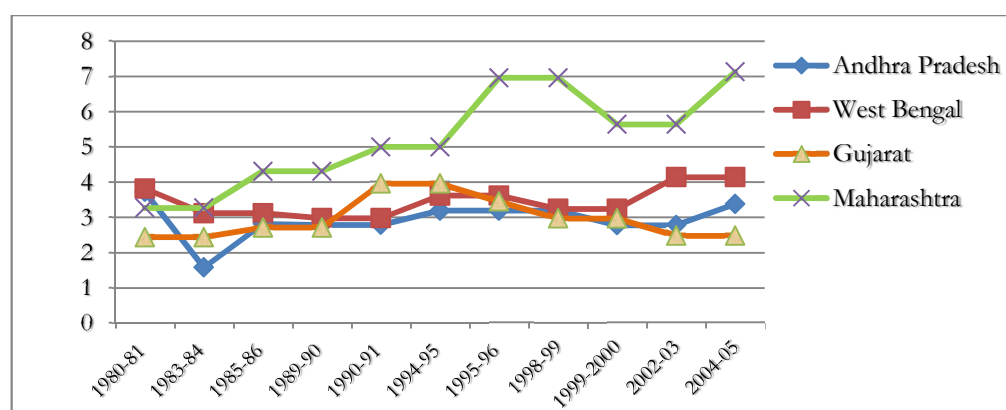
A related and prominent feature of party system affecting reforms is the extent of fragmentation in the party system. Theoretically, conventional understanding suggests that as a party system becomes fragmented, economic reforms become challenging as an increasing number of decision makers create, what Tsebelis calls, a 'policy stalemate' (Tsebelis 2002). Increasing fragmentation in the party system is likely to lead to weak governments inhibiting strong or unpopular decisions often associated with reforms. Alesina (1991) argues that *ceteris paribus*, reforms are adopted slowly in countries with more political fragmentation due to increasing difficulty in making compromises between small groups and instability of governments (Haggard 1994; Roubini 1989).

At first glance higher party fragmentation in West Bengal and Maharashtra seem to corroborate the lower labour market flexibility observed in the states. Similarly, we find that flexibility appears to be more in states conventionally characterised by two party systems namely Andhra Pradesh and Gujarat. However

a careful reading of the state specific condition reveals that in terms of government formation West Bengal and Maharashtra are in practice also bipolar with parties of similar ideological orientation coalescing into two stable opposing poles. Fragmentation as Tsebelis (2002) pointed out not merely implies greater number of decision makers but crucially the policy distance between decision makers. In the context of stable political alliances in West Bengal and Maharashtra between *like-minded parties*, the states are marked by bipolar competition. Correspondingly, explanations of greater reform in states with two party competitions compared to states with multi-party coalition governments appear untenable in this context. For all effective purposes, the alliance governments in Maharashtra and West Bengal act like a single party with minor intra-party differences.

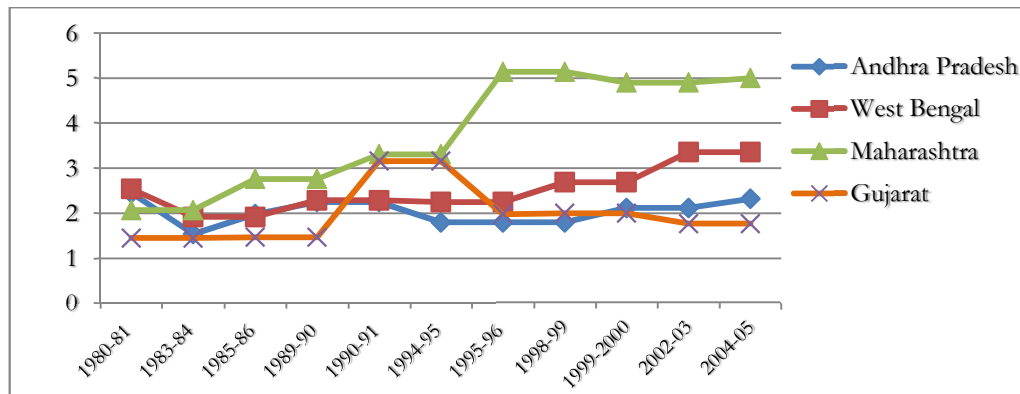
The data on political fragmentation across the states measured through the number of effective parties suggests that effective number of parties have a positive correlation with labour market flexibility. More precisely, we can identify periods of changing party competition in terms of number of parties with periods of increased labour flexibility.

8.3 State wise number of effective parties in terms of votes polled in elections, 1980-2005



Source: POLEX data from Sáez (2010)

8.4 State wise number of effective parties in terms of seats in the legislature, 1980-2005



Source: POLEX data from Sáez (2010)

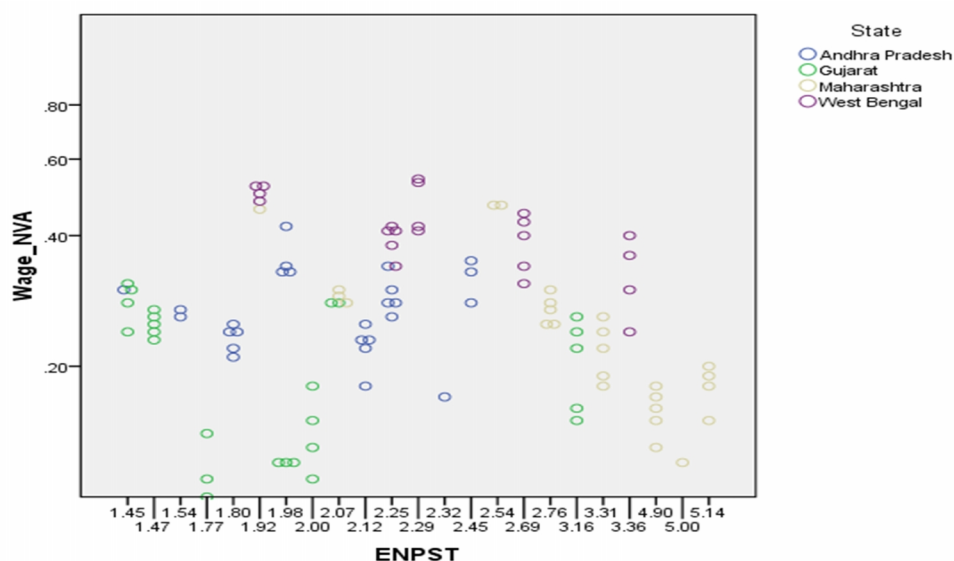
The graph on party fragmentation measured through effective number of parties reveals that extent of fragmentation has been higher in Maharashtra over the period, with around 5 parties in the party system since mid-1990s. Specifically in terms of votes Maharashtra witnesses a steady growth in number of effective parties from 3.27 in 1980 which reaches a peak of 6.96 around 1995-96. Similarly, Gujarat experiences a period of party system fragmentation between 1980 and 1995 when the effective number of parties increase from 1.46 to 3.46. Then on, the number of parties appears to decrease and since 1995 the party system is characterised by a stable two party competition.

In West Bengal, there is an increase in the number of effective parties since 1985 in terms of seats. However, fragmentation in terms of votes is perceptible only since 1990s. Since late 1990s, the party system in the state is characterised by the presence of 4 effective parties. In Andhra Pradesh, the number of parties remains somewhat stable across the period particularly since 1983 which marked the rise of TDP. The party system in the state is characterised by largely a two party competition.

Interestingly increased fragmentation across the states corresponds with increasing flexibility in the labour market. For example, a marked surge in declining wage share can be identified during 1985-86 in Gujarat and Maharashtra which corresponds to a period of increase in number of parties. Similarly, in West Bengal increasing number of parties since the 1990's corresponds with a marked increase in labour flexibility. Comparable trends could be identified in case of Andhra Pradesh although the extent of fragmentation is relatively smaller.

The argument becomes comprehensible in the graphical representation of the relation between fragmentation and wage share (a variable in labour flexibility) across the states over the period.

8.5 Correlation between party system fragmentation and wage share, 1980-2005



A cursory glance of the graph indicates the negative correlation between fragmentation and wage share which contradicts the conventional relation. Clear from the representation is the negative relation between the number of parties in the political system and the extent of wage share and thereby the positive relation of fragmentation to labour flexibility.

The analysis of relation between fragmentation and labour flexibility reveals that contrary to conventional ideas increased political fragmentation has helped labour market reforms. Such an argument questions the established relationship between fragmentation of party system and reforms and necessitates revisiting the arguments. Importantly, the argument of fragmentation augmenting reforms does not imply that states with greater fragmentation have greater labour flexibility but rather points out the facilitating role of party fragmentation in reforms.

5. Explaining flexibility through fragmentation

The positive relation between fragmentation and labour reforms reveal limitations of structuralist understanding of party fragmentation due to non-incorporation of broader socio-political dynamics such as social cleavages, operation of interest groups and ideological polarity. Theoretically the impact of fragmentation on policy transformation will be lower in the absence of ideological polarity between main parties. However if, the extent of fragmentation is higher, level of ideological difference assumes importance. Similarly, the existence of ideological difference among parties only becomes meaningful when extent of fragmentation is high. As such the exact relation between fragmentation and reforms depends on broader dynamics such as the number of parties, the competing ideologies, nature of political mobilisation and aggregation.

In the context of the study, the positive correlation between increasing flexibility and reforms is somewhat expected as the period of economic liberalisation was also marked by increasing democratisation and fragmentation. The period of late 1980's and early 1990's witnessed increased democratic participation and electoral competition largely through mobilisation based of religious, caste and regional appeals.

This dissertation contends that increasing fragmentation and economic reforms were not merely contemporaneous but also correlated developments.

The positive correlation between increasing numbers of parties and labour flexibility can be interrogated at two levels; namely, transformations in the political milieu and instrumental imperative of parties. The two levels are mutually interconnected, and it is only for analytical clarity that this dissertation presents the relation separately.

5.1 Fragmentation and transformations in the broader polity: discourse

The incidence of increasing labour market flexibility in the face of an increasing number of parties can be accounted through the transformations in wider polity, specifically political-ideological discourse. As pointed out in the theoretical section, fragmentation loses its relevance in the absence of ideological difference between parties over reform issues. The study of partisan politics across the states reveals that fragmentation in the party system was largely based on identity issues. As issues of identity gained prominence in politics, it led to marginalisation of issues of labour and facilitated the adoption of similar economic policies. A prominent example of such a contention is the Elite-Mass dichotomy argument of Varshney (1999) which argues that the economic reforms were possible as issues of reforms were crowded out of mass politics by emotive issues such as hindutva and caste reservations that aroused greater passion and anxiety among people and political parties.

Observers of Indian politics have pointed out that the period between late 1980's and early 1990's was marked by three independent yet correlated issues, namely Masjid, Mandal and Market with religion and caste reservation becoming the dominant political fissure driving politics (Yadav 1996). Such a transformation in the politics on one hand increased scope of participation by previously

marginalised groups but, on the other hand, led to muting of issues like class and labour.

Theoretically the correlation between globalisation and identity politics has been pointed in literature. Scholars have noted that in the realm of culture, globalisation not only leads to certain homogenisation with the creation of global culture of consumption but also reinforces regional identities through reactive cultural assertion (Barber 1996). According to Scholte (2000: 168) the assertion of ethnic identity under conditions of globalisation is reinforced through various channels. Globalisation provides space to ethnic groups by reducing the operative space for the nation state. The withdrawal of the state vacates space for ethnic and ascriptive groups to fulfil local needs of constituents. As such globalisation has been associated with transformations in the prevailing political discourse with emphasis on identity and regional issues.

In India, liberalisation of the economy and democratic assertion of identity and ethno nationalism have shared a mutually reinforcing relation. As Chhibber (1999) points out the absence of strong associational heritage, electoral competition over state has led to the politicisation of social cleavages in India. That is why democratisation has proceeded along ethnic and caste lines in India, and such democratic upsurge has undermined non-ascriptive differences such as class and gender. This has had two main consequences for labour; firstly, the old patronage structure has increasingly been replaced by new patronage politics based on communal, ethnic and regional issues, and secondly, the discourse and agenda of politics has also witnessed a progressive marginalisation of labour. Thus increasing number of political parties did not necessarily provide labour any increased scope to oppose neoliberal policy choice. Rather, democratisation in this context led to the emergence of new issues of political discourse based on caste, religion, region at the expense of issue like welfare state, liberalisation and labour.

The developments in the selected sub-national states corroborate such an understanding. For example, Ahmedabad and Mumbai were characterised by huge textile industries which provided significant employment in the formal sector and constituted the bedrock of organised labour movement in the two cities. However by the end of 1980's the textile mills gradually closed down and most workers have to shift to the informal sector (Bremar 2002). However the closure of mills in Gujarat was rather peaceful compared to Maharashtra as many of the displaced workers in Gujarat were accommodated politically through the discourse of religion and communal identity. Sinha (2007) while commenting on the politics of mill closure points out that many workers joined the ultra-rightist religious organisation Vishwa Hindu Parishad (VHP), its youth wing the Bajrang Dal or other organisations dedicated to the militant promotion of Hindutva (hinduness). Thus, opposition to closure was transformed into communal opposition through the emergent discourse of religion and caste.

5.2 Fragmentation and transformation in broader polity: socio-economic groups

The impact of political fragmentation is not only confined to political discourse as it has more tangible consequences in terms of group alignments to political cleavages. As pointed out in chapters 5 and 7, socio-economic support base of parties have significant consequences for the reform orientation of government. Naturally, the consequences of political fragmentation on social groups and their political alignment influence the extent of reform.

Historical evaluation of political economy of India reveals that the period between 1970's and 1980's marked a profound transformation. The green revolution and renewed investment in the public sector during this period led to economic growth and the creation of a capitalist agrarian class which transformed into industrial class. These classes i.e. the agriculture turned industrial capitalists

along with the professional middle classes sought to augment their position by seeking political and material patronage from regional governments and political parties. In the case study, states of Andhra Pradesh and Gujarat were characterised by such developments where regional agrarian turned industrial classes maintained close interconnection with political parties and influenced the reform orientation of parties.

Likewise, the professional middle classes also underwent significant transformations and reorientation. Corbridge (2000) has pointed out that structural changes in the Indian economy led to the emergence of a new middle class which benefited from globalisation and the backward castes that challenged the domination of rich peasants and became the centre of social mobilisation. In welfare state literature, this transformation in the professional classes and growing distance between the concerns of the middle class and that of organised labour has been characterised as the break in the historic alliance between white collar and blue collar workers (Anderson 2001).

This realignment of socio-economic interests was facilitated by the reconfiguration of the party system through fragmentation and regionalisation. As discussed in chapter 6 and 7 of the dissertation, the fragmentation in the party system of Andhra Pradesh marked by the emergence of TDP or BJP in Gujarat facilitated the political reorganisation of socio-economic interests. Observers of party system at the sub-national level have pointed out the shifting caste alliance of backward castes and kammas towards TDP in Andhra Pradesh (Suri 2004b), use of religious idioms and identity in popular mobilisation in Gujarat (Shah 2002), and instability of the social bases of parties leading to a new structure of caste competition in Maharashtra (Palshikar 2004).

Importantly, the impact of fragmentation on the reorganisation of socio-economic support is not automatic, and the process is affected by pre-existing

social cleavages and nature of political parties. In other words, the emergence and persistence of particular political cleavages is a product of both environmental conditions and elite choices. In the study, the impact of fragmentation on the support base of parties does not appear to be in any definite direction in terms of making it more homogenous or heterogeneous across the states. Fragmentation in West Bengal and Maharashtra do not appear to lead to clear political alignment based on socio-economic cleavages. In contrast, fragmentation in Andhra Pradesh and Gujarat facilitated the formation of relatively homogenous support base.

5.3 Fragmentation and instrumental imperative of parties

The positive correlation between increasing effective number of parties and labour market flexibility can also be explained through instrumental imperative of parties. There is an increasing body of literature that point out structural influence of party system on party objectives. In the examination of public expenditure Chhibber (1995) has found that in fragmented multiparty system, intense electoral competition and smaller social base of parties ensure that parties focus on their voting blocs for electoral prospects. Thus, increasing fragmentation of the party system can potentially lead to the emergence of sectional interests in terms of agenda and composition.

The analysis of party system across sub-national states reveal that political mobilisation has increasingly relied on issues of identity and regional dynamics that have facilitated the formation of relatively homogeneous and heterogeneous support bases. In a party system marked by the mobilisation according to identity issues, political parties tend to be dominated by specific groups and parties increasingly relate to support base through the segmented identities of caste, religion and region due to instrumental imperative of nurturing a stable support base. Naturally such a development not only marginalises issues of labour but also

has implications for reform orientation of governments. Such a development is aided by globalisation as scholars have identified the growth of political parties based on narrow and specific interests due to reactive cultural and ethnic assertions under globalisation.

In India, identity based mobilisation and social heterogeneities have ensured regional variations in cleavage based politics and support base of parties (Sridharan 2002). In the context of this research, the TDP in Andhra Pradesh, Shiv Sena in Maharashtra are examples of parties that have been able to arouse local and regional identities and reap electoral dividends. Even the national political parties have not been devoid of such regionalisation. As the findings reveal, even national parties like Congress party and BJP have generated their own region specific agendas and support base.

Hence it can be argued that under conditions of globalisation increasing number of parties are likely to be characterised by parties with parochial and regional agendas. Clearly political competition largely based on issues of identity have significantly different outcome than one based on issues of class. In sum, as party system becomes fragmented and increasingly regionalised, instrumental imperative of parties tend to highlight certain identities at the expense of others. As evidenced from the case study regional parties like TDP, Shiv Sena and even national parties at the regional level tend to emphasise on ascriptive identities at the expense of class or broader identities. Under conditions of regionalisation and withdrawal of the state due to liberalisation political parties have to relate to the people through narrow ascriptive identities like caste or region. Thus increasing fragmentation of the party system leads to the emergence of narrow sectional interests that marginalise broader interests.

5.4 Fragmentation and Interest groups

Fragmentation in the party system also has an effect on interest groups, particularly due to historical-institutional developments that have encouraged inter-connection between parties and interest groups. Such a relation is most apparent in the case of labour movement. According to Bhattacharjee (1996) ideological and political rivalries that characterise the general politics significantly determine the characteristics and behaviour of the labour movement in India. Naturally, fragmentation in party system has implications for trade unions as they become increasingly divided leading to emaciation of union strength.

As discussed in the chapter on trade unions, increasing fragmentation contribute to what Rudolph (1987) terms as *involved pluralism* where increase in number of trade unions is associated with a decline in its strength. Interviews of trade unionists across the four sub-national states corroborate that trade unionism has been affected by both political fragmentations and disenchantment with political trade unionism reflected through the emergence of independent unions.

Trade unions have also been affected by the altered political dynamics under conditions of globalisation. As discussed, economic liberalisation has significantly altered the process of political mobilisation from welfare populism to ascriptive issues as the promise of economic incentives has been driven out by the logic of market economy. Traditional organised groups such as trade unions which were a stable source of political mobilisation have increasingly been marginalised by emergent caste, linguistic, regional associations. Evidence from field work, interviews of trade unionists and political activists suggest that political competition consequent upon fragmentation significantly affected interest group actions and relevance. The situation is aptly summed by one left trade unionist who pointed out that workers unite under the red flag to wage struggle against capital but return home as Brahmins, Harijan, Dalits, and not as a worker.

6. Conclusion

This chapter contextualises the arguments regarding interest groups and political parties within the broader political system. The nature of party system specifically extent of competition appear to have significant influence on the political parties and interest groups. Thus, the findings reaffirm that role of political actors needs to be analysed and understood in terms of the specific context.

The particular case study presents us with a situation where increasing democratisation i.e. mobilisation and representation facilitate the process economic reforms contrary to the conventional arguments. In the sub national states, experience of labour reforms reveal that during periods of increasing fragmentation in party system, labour flexibility has not only increased but also appears to have gathered pace. Such an outcome challenges the conventional argument of increasing fragmentation impeding reforms in a democracy and highlights the limitations of purely structuralist understanding of party fragmentation and reforms. The features of party system share a relation of complex interdependence and the relevance of fragmentation is contingent wider dynamics such as ideological distance, impact on partisan linkage of social groups, interest groups.

The brief discussion reveals the limitations of structuralist understanding of party fragmentation due to non-incorporation of broader socio-political dynamics such as the impact of fragmentation on social cleavages, operation of interest groups and ideological polarity. As the case study reveals fragmentation in party system accelerates labour market flexibility as the emergent political groups and prevailing political agenda highlight identity issues at the expense of class and labour. As the chapter on parties (Chapter 7) has argued, the peculiar intersection between caste and class and the pre-existing caste configuration across the states

has led to governments marked by homogenous support base consisting of business castes. Naturally such a process has been facilitated by dominance of ascriptive mobilisation in politics.

This does not imply the complete absence of rhetoric of class, or the potential for comixing of class and caste concerns, but suggest that the process of increasing democratisation has largely relied on the rhetoric of ethnicity both for mobilisation as well as policy orientation. As De Souza (2006) has argued democratic upsurge has not been translated effectively into the formal politics as the emergence of new political actors has little scope for transformative politics.

The chapter thus goes beyond simple analysis of political transformation and highlights the impact of such transformation on relevant political actors, namely political parties and interest groups. Importantly party system is not an exogenous variable to explain labour market flexibility rather it is endogenous to the function of political actors. As discussed, the nature of party system appears to influence labour market reforms through its impact on wider political discourse, instrumental objective of parties and reconfiguration of political alignment of socio-economic cleavages.

Although such an explanation provides a valuable theoretical framework to analyse the relation between party system and reforms, the emphasis on historical-structural variables should not undermine the importance of agency i.e. political actors. Manor (2002) has pointed out the formation of an ethnic identity among any social group is the product of actions taken by elites within the group and favourable conditions which arise from the broader political and economic environments. However once they crystallise they appear to take a life of own. In other words, the emergence and persistence of particular ethnic cleavages is a product of both environmental conditions and elite choices (Brass 1984).

Parties have also sought to reorient through regionalised identity and stable linkage to social groups as identity issues dominate political mobilisation. As Nayyar (1998) points out fragmentation in the party system in India has led to the emergence of several regional parties and even the national parties have tended to view their regional units as the focal points in inter-party competition. This regionalisation is also reflected in the socio-economic support base of parties. In the earlier era of consensual politics parties tried to appeal to cross sections of society, irrespective of caste, religion, community or class. Such a tendency is amplified by the virtual withdrawal of the state from the economy and inability of governments to provide economic incentives to the voters due to pressures of the market. In the absence of economic resources and need based agenda parties try to associate with voters through ascriptive linkages. As such, there has been a qualitative change in the way in which parties relate themselves to the people leading to a significant reconfiguration of socio-economic support base and electoral relevance of traditional interest groups.

Thus, the extent of competition and fragmentation of parties across the states influences reforms due to transformative influence of the party system on interest group dynamics, modes of political mobilisation and issues of political discourse. The ideational and instrumental context of the party system influence the process of economic reforms and in the context of India political fragmentation and economic liberalisation in India appear to be mutually reinforcing developments.

Chapter 9

Conclusion

1. The political economy of reforms

This dissertation analyses and shows that political factors have a significant impact in determining reforms under conditions of globalisation. The study of political variables of economic reform is necessary for mainly two reasons. Firstly, it highlights the relatively understudied role of political actors and processes in contributing to policy transformation. Secondly, it points to the specific configurations of domestic interests that contribute to definite reform outcomes. Evidently such a research is based on the underlying assumption that structural pressures for economic restructuring under conditions of globalisation can only partially explain policy transformations and reforms have political logic behind them.

In this dissertation, the exact role of political factors in reforms is explored empirically through a case study of sub-national variations in labour market policy and outcome. The dissertation explores labour market variations across similar economic units to reveal the political-economy of reforms. The conclusions derived from the specific case study of labour reform propose the larger argument of political-economy of globalisation.

Based on the case study, it is argued that political factors have a significant role in determining labour reforms across political units. Specifically, partisan orientation of government and party competition emerge as significant variables determining policy reform in transitional economies. Partisan orientation and party competition condition the socio-economic support base of regimes, operation of the party system, imperatives for parties and party-interest group relation that have consequences for reform outcome.

The research finding on the impact of support base highlights the political character of reforms as *political salience of economic interests* appears to be a crucial determinant of policy transformation. The outcome indicates that policy at some level reflects conflicts and bargaining between relevant social groups which corroborate the findings of scholars such as Rogowski (1987) and Frieden (1996). Significantly, at the level of governance it seems that who governs matters for how globalisation unfolds in a society. The role of class-interest in the adjustment process appears to be substantial, and public policies under globalisation continue to be nuanced if not shaped by distributive conflicts between contending socio-economic groups.

The party system influences reforms at a broader level by providing or constraining policy alternatives and electoral choices for social groups and interests in society. The configuration of socio-economic groups, prevalent political agenda and relative prominence of interest groups is determined within a wider political environment that not only influences how individuals or groups locate themselves in the economic structure but their opinion on reforms. Consequently, the capacity of socio-economic interests to become politically salient remains structured by the wider political dynamics.

Thus, broadly the dissertation identifies two sets of explanatory variables namely; *partisan orientation and political competition*, that have an impact in determining the extent of reforms. Such an outcome contributes to the literature on political variables in explaining policy heterogeneity across societies (Garrett 1998a; Korpi 2003; Esping-Andersen 1996).

Further, the adoption of sub-national case study also provides insights regarding the location of policymaking in a multi-level polity. The dynamics of labour reform identify the sites of policy transformation at the sub-national level. The finding corroborates recent literature on federalism which argues that regional

states have emerged as key actors mediating the process of structural adjustment (Sinha 2005; Sáez 2002).

2. Politics of labour market reform

The analytical point of departure for this research is the observed divergences in labour market policies and outcome in four sub-national states of India, namely Gujarat, Maharashtra, Andhra Pradesh and West Bengal despite similar economic (structural) and institutional framework (*Gujarat and Maharashtra as high growth, high per capita, high FDI and more industrialised while Andhra Pradesh and West Bengal as medium growth, median per capita and moderately industrialised*). The variation in labour flexibility is not confined to labour policy (regulation) only but also extends to labour market outcome (wage share, proportion of contractual labour).

At a more specific level, Andhra Pradesh and Gujarat reveal comparatively flexible labour market than Maharashtra and West Bengal which cannot be accounted through economic or institutional factors. Foreign direct investment, an indicator of the degree of global integration does not corroborate the extent of flexibility and nor does economic structure or institutional framework.

The dissertation points out that variation in labour flexibility is a function of political undercurrents, namely, partisan *orientation of governments, relative strength of interest groups* and *party system dynamics*. The research contends that in transitional economies characterised by a legacy of state intervention in the economy and weak organised interests, economic reforms is mediated and influenced by political dynamics. Clearly labour policy and outcome appears to be as much a political as an economic decision even under conditions of globalisation.

As the case study reveals, governments supported by relatively homogenous support base with business representation tend to reform more than

parties with heterogeneous support base. Literature on public policy suggests that relative homogeneity in support base ensures clarity and focus in policies whereas heterogeneous social base tends to create ambivalent and broader social policies. Governments with wider social base formulate broader socio-economic policies and maintain an extensive network of political patronage that is reflected in the gradualist attitude towards reforms. Broadly regimes with relatively heterogeneous socio-economic support base exemplified by the Congress party in Maharashtra tend to reform gradually. Similarly given the predominant socio-economic base of BJP and TDP originating in urban middle class and upper class-caste sections, both the parties appear more reformists and labour flexibility is significantly higher during their regime. In West Bengal the initial pro labour policy, in spite of industrial stagnation was driven the support base of labour, professional bhadralok community and agrarian sections.

The creation of such homogenous or heterogeneous support base for parties appears to be a function of pre-existing caste cleavage and peculiar correlation between caste and class in society. However, the process is not purely determined by structural factors as there are political factors that drive ascriptive mobilisation. Manor (2002) has pointed out that the formation of an ethnic identity among any social group is by no means inevitable but rather the product of actions taken by elites and favourable conditions which arise from the broader environment. Thus, the composition of such support base is not static, and just as the existing caste cleavage has implications for composition of support base, the party system has a role in the configuration of support base through the structuring of political competition. Hence, configurations of caste and its correlation with class within identity based mobilisation have led to the construction of homogenous support base.

It is necessary to point out that the peculiar correlation between caste and class is due to historical-social dynamics that characterise India. Traditionally the high castes are found to be concentrated in the upper classes, particularly among the landowning and industrial sections of society. In such a context political mobilisation on the basis of caste identity leads to regional variations in the support base of parties due to nature of pre-existing social cleavages and political competition. As the case study reveals even the national parties in India like the Congress party exhibit regional differences due to variations in socio-economic dynamics. The effect of Congress regime in Andhra Pradesh and Maharashtra seem to vary due to regional specificities, particularly composition of social castes and classes.

Such a process is augmented by the party system which operates as an endogenous variable influencing political discourse, instrumental imperative of parties and political alignment of socio-economic cleavages. The nature of political competition operating in a particular socio-economic situation can provide opportunities for generating demands as well as constraining social demands depending on ideological and political dynamics. As the case study suggests predominance of ascriptive issues and identity based political parties marginalises issues of class and labour. Conversely, the presence of left political parties seems to increase the mobilisation of labour.

In the case of labour, increasing number of parties and democratisation based on ascriptive identity has a negative effect. As pointed out, due to peculiar intersection between caste and class, identity based mobilisation contributes to relatively distinct socio-economic support base for parties. Identity based mobilisation marginalises the socio-economic character of regimes and competition largely based on issues of identity. That is why increasing fragmentation in the party system is evident along with increasing labour market

flexibility contrary to theoretical expectation. Such an outcome goes against the established idea that an increasing number of parties prevent reforms.

Evidence from the sub-national states suggests increasing reliance of parties on ascriptive mobilisation, such as TDP in Andhra Pradesh in the name of telegugauravam or Telegu pride, and the BJP in Gujarat emphasising on a Hindu identity. Importantly the role of Congress party in conceptualising voters through caste identity in framing welfare policies can be considered a precursor to such identity politics. Although pertinent and stimulating issues in the context of political-economy of reform, this dissertation given its limited scope focuses on the outcome rather than process. The study of particular mechanisms adopted by parties that contribute to identity politics constitutes a vital and urgent area of research.

The findings of the dissertation suggest that the role of political dynamics is perhaps greater than that has been attributed in contemporary reforms literature. Despite the uniformity of structural pressures on sub-national states for increasing labour market flexibility, the unfolding of reforms i.e. the pace and orientation of reform is significantly affected by political dynamics. Any policy reform or transformation towards neo-liberal consensus is a function of the interaction between broader structural (economic) transformations and domestic political dynamics specifically partisan orientation and nature of party system.

Contextualising the argument in broader terms it can be argued that, even though global transformations in the economy and polity (liberalisation and internationalisation) exert significant pressures on economies to adopt uniform policies, such pressures can be negotiated by domestic constituents, and specific policy outcome is determined by the prevalent political economy. Thus, the research argues for 'relative autonomy of politics' under conditions of globalisation which stands in contrast to both the globalist argument of structural determination

that marginalise role of political factors, as well as, sceptic assertions about the myth of globalisation. The argument finds resonance in Rudra (2008) who points out that the negative impact of liberalisation on welfare spending in less developed economies is not structural, but due to the weakness of democratic institutions and collective action problem by labour. Given the sub-national comparative framework and specific focus of this dissertation, it is not possible to comment on the potential for political factor to alter or reject forces of globalisation completely. The question remains crucial and central to analysis of globalisation.

In sum research findings contribute to the literature on reforms, particularly the strain of literature characterised as political economy of reforms by highlighting the role of political dynamics, specifically interest groups, partisan orientation of governments and political competition in determining reform outcome.

3. Determinants of reform: revisiting research hypotheses

Based on the case study, chapters' five to eight of the dissertation discusses and analyses the different political actors and dynamics that influence labour policy. The following section attempts to summarise main findings of the dissertation in terms of specific political agencies. The outcome presents the variation in labour flexibility as a function of relative power of interest groups, partisan orientation of government and prevailing party system.

3.1 Interest group: trade union

The research findings broadly confirm the established inverse relation between strength of trade unions and extent of labour market reforms. However, the case study also suggests that strength of trade union has decreased over time with the shift in economic structure that has corresponded with significant

restructuring of labour. Evident from the argument is the complex and non-linear relation between unionism and labour reforms as trade union strength does not necessarily lead to favourable outcomes. Analysis of the dimensions of trade union strength reveals that the capacity of labour is significantly constrained by government-union relation.

In terms of presence and worker mobilisation trade unions appear to be strongest in West Bengal and weakest in Gujarat which corroborates with the situation of labour flexibility in the states. In the states of Maharashtra and Andhra Pradesh, however, the power of trade unions do not corroborate to labour market condition as unionisation appears to be stronger in the latter compared to the former. The non-correspondence between unionisation and flexibility suggests that the strength of trade union is not purely conditioned by membership, and wider political dynamics, especially union-government linkage have a crucial role.

Historical-institutional development of state dominated industrial relation and weakness of labour movement meant that linkages to government emerged as a crucial determinant of trade union power. As such trade union strength although impeding labour flexibility does not appear to explain sub-national variations due to differences in government orientation to reform. At the level of partisan linkage, the case study reveals greater representation of trade union in wider politics on one hand increases the political visibility of labour and aids their spread, on the other hand, forces trade unions to adopt wider view of economic growth and accept increased flexibility.

Evidence of reforms reveals that Andhra Pradesh inspite of stronger unionism has been at the forefront of public sector reforms (Mooij 2005); while Maharashtra with a weaker trade union movement has been slow in disinvesting public sector. The extent of disinvestment and privatisation has implications for trade union strength and consequently labour flexibility. Thus, partisan orientation

of government i.e. political-ideological dynamics between government-trade unions emerge as influential intermediate variable in determining the impact of trade unions on reforms.

3.2 Interest group: business

Like trade unions, business influence appears to be determined by wider political dynamics specifically the nature of business- government linkage. The pressure for flexibility emanates primarily from private business under conditions of globalisation due to pressures for attracting investments and greater competition. As such states with greater private sector should correspond with greater labour market flexibility. However, the influence of business over labour market flexibility does not appear to correspond to the extent of private-public share of economy as evidenced in the case of Maharashtra or Andhra Pradesh.

The divergence in business influence across the states can be traced back to the nature of party in government, specifically nature of business-party interaction. As the case study reveals, divergences in business influence are largely due to business representation in support base of party in government. States where business classes and castes constitute a key support base for government are characterised by greater reforms than states where business does not constitute electorally relevant or dominant support base of regime.

However, the assertion of business interests within support base is constrained by the composition of wider support base for parties. When the support base of party is relatively homogenous in terms of socio-economic composition with the presence of business groups the likelihood of flexibility is greater.

The existence of an assertive and dominant business classes within Andhra Pradesh and Gujarat has led to greater pro-business orientation. In contrast, a

vibrant business class in Maharashtra despite material resources does not appear as dominant in pursuing its agenda due to the existence of countervailing social forces such as agrarian interests in the political system. In the context of West Bengal, not only is business relatively weak, but historically the inability of business to emerge as dominant support base for regime meant low business influence.

The role of partisan orientation of government is supported by existing literature that emphasise the role of caste-class dynamics in the determination of developmental policies of government (Srinivasulu 1999; Sinha 2005). As Sinha (2005) has pointed out the historical dominance of regional business class ensured the market dependent development strategy of Gujarat. In contrast, West Bengal was marked by marginal influence of business due to domination of the professional middle class in society and politics of the state due to historical developments. The dominance of radical and left politics in the state was reflected in the continuous rule for 34 years by the Left Front- an alliance of left parties dominated by the Communist Party of India (Marxist).

3.3 Partisan orientation: socio-economic support base

The analysis of relative variation in interest group influence due to nature of linkage to government logically suggests the role of partisan orientation. The relevance of partisan orientation may be traced back to institutional developments since independence, particularly the adoption of state led strategy of economic growth. As the state sought to mediate all social conflicts, including that of capital and labour interest groups historically operated largely through the political system especially government. As such, political parties and the broader political system have a crucial role in determining the relative strength of organised interest groups and distribution and redistribution of resources.

The analysis of labour market variations across the sub-national states suggests that partisan orientation of government is a crucial political factor in reform. According to literature, orientation of government is determined by ideological and instrumental imperative of parties i.e. the material interests of their support base and ideological programme. For example, the extent of business influence on public policy is supposed to be lower when left party and higher when pro-business party are in power. The case study corroborates such an understanding as the existence of left government in West Bengal significantly impedes the extent of flexibility through the spread of trade unions and protection of public sector which has implications for labour flexibility.

However, ideological differences as a causal explanation lose relevance in the absence of any sharp policy divergence between leading non-left parties on issues of economic reforms. Hence, any perceived difference is due to instrumental interest of parties i.e. support base. Empirical evidence also suggests variation in flexibility across states dominated by parties such as Congress and BJP who have a similar position on economic reforms. Hence, partisan orientation of government due to differences in support base emerges as a crucial explanatory variable for labour market reforms. The case study reveals that labour reform is greater in states where business classes or castes constitute a significant support base for party in power. However, the influence of business groups within the party is contingent upon the broader socio-economic support base for the party in power. Consequently, governments with significant business representation within a relatively homogenous socio-economic support base can implement greater reforms. In contrast, governments backed by support base with marginal or no business presence, as in West Bengal appear to be least reformist. Parties in government with significant business support, but relatively wider heterogeneous socio-economic support base as in Maharashtra appear to reform gradually.

The differences in the pace and orientation of government to reforms is attributed to two interconnected factors; firstly a homogenous support base allows parties to formulate coherent and focused policies due to relatively fewer contradictory pressures from the support base, and secondly parties with narrow and homogenous support base are more likely to resist interest group pressures not amenable to their respective support base. Conversely if, the support base is wide and heterogeneous, governments in spite of business representation often find it difficult to pursue reforms due to the distributive and redistributive pressures emanating from support base.

In this context, it is essential to clarify and elaborate the suggested argument especially with regard to homogenous or heterogeneous support. The nature of socio-economic support base is considered homogeneous if the main constituent groups in support base are similar in terms of social and economic position and vice versa for heterogeneous. To put simply, homogeneity or heterogeneity is determined by the similarity or dissimilarity of groups that constitute core support base of parties in terms of social and economic position and expectation from public policies (Korpi 2003). Such a socio-economic qualification of support base is possible through a caste based analysis due to the peculiar interrelation between caste and class in India. Caste as a hereditary, hierarchical and endogamous social stratification emanating from socio-religious functions also has correlation to class understood as groups with relatively similar situations in the economy that define similarities in their opportunities and constraints.

In this context, an influential theoretical work that reinforces the argument made in the dissertation is 'United Colours of Congress: Social profile of Congress Voters' by Heath (1999). Heath and Yadav determine the social basis of Congress party support in the 1990s through both castes as well as class configurations. They

point out that in the case of Congress party- BJP contest, the support base of BJP has tended to be more concentrated among upper castes, middle and upper classes and weakest among Muslims and underprivileged. As such the dominant support base of BJP is more homogeneous compared to Congress which was supported dominantly by underprivileged, minorities, lower classes along with sections of upper caste and class. Similarly, in Maharashtra they found that in general Congress voters were less well off than BJP-Shiv Sena voters although the difference was much less than direct Congress-BJP contest.

In most transitional economies, due to various historical reasons political mobilisation is often driven by identity issues and in India caste has been a dominant socio-political cleavage that drives politics. In the context of the dissertation consideration of caste support base provides an indication of the relative composition of support base. A support base is considered socio-economically heterogeneous if the dominant castes in the support base are relatively dispersed along caste hierarchy and homogenous if the variation is low. The analysis of support base in terms of caste admittedly leaves out many more prominent social cleavages that have a marked influence on political configuration such as religion and language. However, the choice of such a methodology can be explained through research exigencies. Firstly the literature on political party support in India derives largely from a caste based understanding as revealed from extensive secondary research. Secondly in the absence of class data on support base and broad correspondence between caste and class the former can be used as a proxy variable.

As pointed out, the creation of homogenous or heterogeneous socio-economic support base for parties due to pre-existing caste cleavage and peculiar correspondence between caste and class. As identity politics or caste cleavage provide the basis of political mobilisation, depending on pre-existing caste-class

configuration and political competition both homogenous as well as heterogeneous electoral support bases develop across states and regimes. In states where business castes constitute a significant part of a relatively homogeneous socio-economic support base such as BJP in Gujarat and TDP and Congress in Andhra Pradesh, the governments undertake greater reforms and are less amenable to trade union influence. In contrast states where the stable support base for party in power is relatively wide or heterogeneous, despite business representation, governments appear to reform gradually.

The emergence of a homogeneous or heterogeneous support base is not merely determined by structural presence of caste cleavages as political parties, and party system has a decisive role in the process. The extant literature on parties and party system in India reveal a crucial role for political parties in ascriptive mobilisation. For example, Shah (2007) has argued that with the rise of BJP in Gujarat, the demands of the disaffected sections of society and social tensions have been increasingly coalesced into a majority-minority communal discourse. Similarly emphasis on ascriptive identity by political parties can also be identified in other states, such as Maratha- Bihari conflict or majority- minority discourse of Shiv Sena, Telegu pride of TDP, caste conflict regarding state recognition between madras and maligas or telengana state movement.

Although the focus of this research limits interrogation of the specific processes and relation that parties adopt for mobilisation, the issue constitutes a serious agenda for future research. This research specifically focuses on the impact of identity based mobilisation on reforms at the level of party system. Importantly the emphasis on partisan politics based on the support base of regimes suggests the continued relevance of class related socio-economic interests under conditions of globalisation.

The importance of socio-economic groups in reforms has been emphasised by Corbridge (2000) who argues that economic reforms in India was the revolt of upper- class-class minority against a pro poor state. The argument highlights the emergence of a new middle class who are the beneficiaries of globalisation and the simultaneous emergence of backward castes that challenged the domination of rich peasants and became the centre of social mobilisation. This class has increasingly sought to reorient itself with the market and global consumption patterns. In welfare state literature, this transformation in the professional classes and growing distance between the middle class and organised labour has been characterised as the break in the historic alliance between white collar and blue collar workers (Anderson 2001). The assertion regarding partisan orientation in determining reforms is also substantiated by welfare state literature and opposition to reforms literature that emphasise the role of social coalitions in bringing about or impeding reforms (Korpi 2003).

3.4 Party system: fragmentation and competition

The argument of partisan orientation for labour market variation needs to be qualified through the operation of the party system. The nature of political competition has significance for the configuration of socio-economic groups as well as prevalent political discourse in society. The party system also acts as an intermediate variable that influence the behaviour of interest group and political parties. Broader political system i.e. nature and extent of political competition provide the framework of choices for policy makers and determine the conditions of interaction between political actors.

The conclusions derived from the research suggest that the impact of political fragmentation on reform depends on the qualitative nature of the process i.e. the issues that drive fragmentation. In the sub national states, experience of

labour reforms reveal that during periods of increasing fragmentation, labour flexibility has not only increased but appears to have gathered pace. Such an outcome is contrary to conventional argument of negative relation between fragmentation and reform.

The increase in the effective number of parties or fragmentation facilitates labour market reforms through certain distinct yet interrelated factors. Firstly, in a transitional economy marked by identity politics, the emergent political parties are often based on social cleavages such as caste and communitarian identities that may marginalises the issue of labour. Such an outcome although not automatic or inevitable is largely the result of broader political-economic environment and partisan mobilisation. As Chhibber (1999) points out in India in the absence associational way of life, electoral competition over state has led to the politicisation of social cleavages. As such, democratisation appears to have proceeded along ethnic and caste lines in India, and the democratic upsurge has undermined non-ascriptive differences such as class and gender. Interviews with left political activists and labour leader reveal that caste identity more often than not overrides class identity of workers during elections. Although it does not imply the complete absence of rhetoric of class, or the potential for comixing of class and caste concerns, the process of democratisation has largely relied on the rhetoric of ethnicity both for mobilisation and policy direction. De Souza (2006) has argued that democratic upsurge has not been translated effectively into formal politics, and the emergence of new political actors has little scope for transformative politics.

Political fragmentation also contributes to reforms by enabling the realignment of caste-class configurations within broader society. Such a process provides opportunities for reconfiguration of support base and under conditions of business presence within homogeneous support base can facilitate reforms. As

the chapter on parties (Chapter 7) has argued the Congress party in the selected states represented a heterogeneous catch all party with wide support base till around 1970's. However given specific configurations of caste in Gujarat and Andhra Pradesh, fragmentation in party system (emergence of BJP and TDP) translated into realignment of socio-economic groups that had implications for partisan orientation of governments and consequently reforms.

Such a realignment of socio-economic groups in society is also contributed by instrumental imperatives of parties. In a party system marked by the mobilisation according to identity issues, political parties tend to be dominated by specific groups and parties increasingly relate to support base through the segmented identities of caste, religion and region due to instrumental imperative of nurturing a stable support base. As Nayyar (1998) argues in the earlier era of consensual politics parties tried to appeal to cross sections of society, irrespective of caste, religion, community or class. The tendency is amplified by the virtual withdrawal of the state from the economy and inability of governments to provide economic incentives to the voters due to pressures of the market. In the absence of economic resources and need based agenda, parties try to associate with voters through ascriptive linkages. Consequently, there is a qualitative change in the way parties relate to the people leading to significant reconfiguration of socio-economic support base and electoral irrelevance of traditional interest groups such as trade unions.

Thus, the extent of competition and fragmentation in the party system influences reforms across the states due to its transformative influence on interest group dynamics, modes of political mobilisation and issues of political competition. Although the party system is not an exogenous variable affecting reforms, political fragmentation and economic liberalisation in India appear to be mutually reinforcing development.

4. Implications of research outcome

This finding of the dissertation provide a political explanation for labour market variation and suggests that the dynamics between interest groups and government, socio-economic support base of parties and the prevailing party system have implications for reforms. Such an argument contrasts the structuralist understanding of Garrett (2000) that cross-national variations in market integration are the product of basic economic characteristics (such as country size and level of development) than political factors (such as regime type or the left-right balance of power).

The research outcome is broadly in consonance with the existing literature on political economy of reforms that seek to explain the scope and contents of reforms through political variables. The argument of identity politics marginalising issues of labour both at the level of discourse and partisan linkages of labour movement is somewhat similar to Elite Mass dichotomy argument of Varshney (1999) that argues reforms in India were possible due to displacement of reforms issues from mass issues by identity politics. However the findings of the dissertation diverge from Varshney in so far as the contention that economic reforms have progressed only in areas of elite concern such as trade and financial reforms and not in areas with potentially negative or highly uncertain implications for mass politics. Contrary to lack of reforms in the labour market the findings suggests significant increase in flexibility despite protective legislations. As such the reform by stealth argument of Jenkins (1999) appears to be more appropriate in the context of politically sensitive labour reforms.

The discussion on parties and party system suggests that configurations of support for government made possible by pre-existing caste cleavages, and certain modes of mobilisation have consequences for reforms. According to Chhibber (2001) the configurations of support base according to identity i.e. caste cleavage,

is structurally determined. He points out that party strategy and electoral competition are significantly influenced by the social cleavages around which parties evolve. The research challenges such a structuralist understanding of support base purely through pre-existing social cleavages. The research outcome, while accepting the role of the wider environment, highlights the role of political parties in reinforcing or diminishing specific configurations of social support. Lipset (1967) one of the foremost proponents of the cleavage theory, points out parties may be able to evolve new alignments of support independent of pre-existing differences. The case study reveals the prominent role of political parties in constructing support base, such as the BJP in Gujarat creating new configurations of support based on religious identity, and the TDP reorienting its position on reforms reflected through the displacement of NTR by Chandrababu Naidu.

In sum, the political determinants of labour market flexibility present a multi causal multi variable outcome. Primarily it suggests that support base of regimes and party system dynamics has implications for reform. Parties with relatively homogeneous support base with business representation tend to reform more than parties with heterogeneous support base. Reforms are lowest under parties without any significant representation of business and parties. Importantly the process of economic reform is aided by increasing fragmentation in party system on the basis of identity issues. The increasing currency of cultural and ethnic identities issues not only mute issues of class but significantly help in the composition of partisan support on the basis of ascriptive identity. Such a process is aided by the peculiar correlation between caste and class in India. The research outcome suggests that analysis of fragmentation must consider the number of parties, the distance between parties over particular policy, and the political discourse associated with the process of fragmentation.

Significantly, the research outcome suggests continued relevance of political agency especially trade unions in affecting policies regarding labour market reforms. Trade unions by their *raison d'être* seek to protect and improve wages, work conditions and social benefits for workers and act as impediments to labour market reforms. The changed global production network has undermined the capacity of organised labour through mobility of capital in a networked and multi-scalar form of capitalism (Gillan 2010). The emaciation of trade unions as an interest group can be theoretically explained through economic and political context of trade unions. Economic changes particularly post-fordist model of production has meant a decline of traditional labour employed in a factory with statutory rights. Most new employment has become highly flexible and segmented, leading to the creation of new labour or 'precariat' who remain largely outside the ambit of unions. Moreover, as pointed out in literature the impact of globalisation has varied across industries and sectors, particularly between economic sectors sheltered from international competition and the economic sectors exposed to growing pressures for competitiveness. Such difference creates growing intra-labour divisions posing problems for trade unions.

The historic weakness of trade unions in India due to limited penetration and state dominated industrial relations framework led to increased reliance on government. Politically the ideational shift towards market led development and structural pressures on government have led to widening gaps between political parties and trade unions. Differences in ideational orientation, exogenous pressures from international organisations and markets have contributed to such widening gap (Häusermann 2007). In such a situation, the trade union movement can hope to influence reforms by potentially focusing beyond the factory and becoming electorally relevant. Globalisation requires going beyond both the factory as the site of production and industrial worker as the vanguard of labour.

5. Bringing back the political: the relevance of political dynamics

The analysis of political variables in determining labour market reforms contributes towards the wider debate on the relation between politics and economic policy under conditions of globalisation.

At a broader level, the research findings suggest that, in transitional economies characterised by a legacy of state intervention and weak organised interests, economic reforms is mediated and influenced through political dynamics, particularly political parties and party system. The role of political party is determined by partisan orientation of support base and prevailing political competition. It is necessary to mention that such a process is conditioned by broader political and structural conditions such as political framework, nature of political cleavages, historical institutional developments which are not discussed in the dissertation.

The implication of such an outcome is politically relevant due to two interrelated factors. Firstly analysing the argument of policy convergence in the light of broader political experience, it becomes apparent that although external pressures may be significant, the outcome of reforms is always contingent on domestic political dynamics. The research findings also corroborate that policy change towards neo liberal consensus has political, specifically class-orientation. To put simply, contemporary globalisation is not a class neutral process and has specific consequences for different socio-economic categories of people. The data on wage share (share of labour) and contractual employment (atypical/temporary) reveal a marked decline in the position of labour vis-à-vis employers. Thus, the dissertation corroborates the power resources perspective that argues distributive conflicts between leading social interests groups reflected through the political process as an important determinant of socio-economic policies (Korpi 2003).

The outcome also contradicts the spatial theories of parties such as median voter theory. According to the median voter choice argument most voters are massed in the median region, and as such parties adopt largely median policies to appeal to largest constituency of voters. Even though, the dissertation cannot comment on the broader spectrum of public policies, in terms of labour policy such an argument does not appear to hold. Rather as the case study reveals differences in labour market policy and outcome is a function of nature of party in power. Partisan politics appears to be relevant in shaping the pace and orientation of labour policy

6. Globalisation and public policy

The research outcome emphasising on the political determinants of reform and suggesting *relative autonomy of political* in determining labour reforms raises pertinent questions regarding public policy under conditions of globalisation. As pointed out in the introductory section, any discussion on labour policy is essentially a discussion on public policy under conditions of globalisation.

The study of labour reforms across sub-national states reveals that labour reforms are the result of a more general shift in economic policy paradigm. The growing internationalisation of production and consumption creates structural pressures on states to adopt neoliberal policies to maintain international competitiveness regardless of their partisan compositions and national differences. As Rudra (2008) points out globalisation discourages governments from raising revenue through taxes due to "footloose capital," and instead encourages reduction in welfare spending as well as taxes to improve export competitiveness and attract international investment. The global transformations are accompanied by changes in economic arrangement within domestic economies such as structural transition from an industrial to a service economy, shifting patterns of demand and de-

industrialisation. The increasing liberalisation of the economy under conditions of globalisation is associated with increased space for market forces in the determination of economic outcomes which is argued to weaken the role of politics in influencing economic outcomes. Such development has raised questions regarding the limits of political control over economic processes.

Given the limited scope and specific objective of this dissertation, it is not possible to comment decisively on political control over the market at a macro level. In order to evaluate the role of domestic politics in shaping economic reforms under conditions of globalisation a large cross national comparison between like-cases such as Brazil and India is required. However, the dissertation does reveal that even when economic pressures necessitate some adjustment, the choice of policies and scope of reforms is determined by political dynamics. At a theoretical level, such an argument indicates a greater role for political factors in the determination of policies than conventionally regarded in globalisation literature. It points to the potential space for domestic constituents to influence policies and suggests that reforms emerge through the interrelation between economic considerations and political imperatives.

As the case study reveals, labour market flexibility has proceeded in different states not only at varying pace but was also initiated at different times. For example, increasing flexibility in labour market can be noticed in the state of Gujarat much prior to reforms in 1991 while, in West Bengal, it is evident nearly one and a half decade later only after liberalisation. This variation is explained, not by global structural transformation but partisan orientation and political configuration. Thus, contrary to arguments of increasing irrelevance traditional political factors such as social groups and political parties under conditions of globalisation, this research argues for continued relevance of political actors and processes.

Structural transformations leading to shift from industry to service sector has significance for the labour market as the service economy provides ample labour demand for highly skilled and unskilled work, but fewer job opportunities for low level skills (Wood 1994). Also, de-industrialisation of traditional sectors causes high rates of unemployment and labour-shedding strategies reduce the labour market participation rate. However, the response of government to such developments can vary from passive labour market support (unemployment benefit) to active labour market policies (skill development) which remain inherently a political choice.

As noted in this and other comparative studies, although convergence dynamic towards micro reforms can be noted, the extent and intensity of change has varied due to political economic reasons. Changed policy paradigms are filtered differently through distinct traditions of welfare capitalism, power resources, institutional lock-in effects and configurations of national political systems. Consequently, we can say that while there has been a general trend toward neoliberal policy convergence, it cannot be argued that increasing economic linkages or globalisation has been the only cause behind labour market flexibility. The role of political agency, democratic organisations and their derivative institutions is found to affect variations in extent of labour market reform even under conditions of globalisation.

The recognition of political-economic factors in the determination of reforms suggests that globalisation processes are more complex than the dichotomy of divergence and convergence and political-institutional agency have a profound influence on the economy (Christopherson 2002). The argument presented occupies the middle ground between literature that expound the supremacy of global economic transformations (Strange 1996) and one that doubts the effect of globalisation on state capacity (Garrett 1998a). As such the

dissertation provides a sophisticated model of political economy of labour policy that reinstates the importance of political variables i.e. partisan orientation, interest groups and party competition in determining reforms. Domestic political dynamics and configurations have a powerful influence on policy which is neglected by the dominant structural interpretation and need to be incorporated in any meaningful analysis of politics of reform.

Appendix

Chapter 4

Comparative position of states in terms of population, literacy, work force

State	Year	Population	Literacy rate	Urbanisation	Percentage of workers	Main worker	Non Worker
Andhra Pradesh	2001	76210	60.47	27.3	45.74	38.05	54.12
Andhra Pradesh	1991	66508	44.1	26.89	45.05	42.77	54.95
Andhra Pradesh	1981	53550		23.32	45.76		
Gujarat	2001	50671	69.14	37.36	40.19	32.14	55.29
Gujarat	1991	41310	61.3	34.49	40.23	34.12	59.77
Gujarat	1981	34086		31.1	37.27		
Maharashtra	2001	96879	76.88	42.43	43.39	36.81	56.46
Maharashtra	1991	78937	64.9	38.69	42.96	39.28	57.02
Maharashtra	1981	62784		35.03	42.56		
West Bengal	1981	54581		26.47	30.17		
West Bengal	2001	80176	68.64	27.97	36.79	28.76	63.25
West Bengal	1991	68078	57.7	27.48	32.19	30.23	67.81

Source: Statistical Abstract (Various Issues), Ministry of Statistics and Planning, Government of India

The table provides a comparative data on literacy rate, urbanisation and workforce which reveals similarity between West Bengal and Andhra Pradesh as well as Gujarat and Maharashtra. Interestingly the percentage of workers is lower in West Bengal compared to other states.

The similarity between the sub-national states is most evident in terms of economic indicators. The table on growth rate of economy, contribution of industry to state domestic product and per capita state domestic product reveals remarkable similarity between Andhra Pradesh and West Bengal and Gujarat and Maharashtra.

Comparative table on selected economic indicators

Year	State	Growth Rate	Industry Contribution	Per Capita SDP
1980-1985	Andhra Pradesh	4.7	13.01	5082.8
1980-1985	Gujarat	6.9	23.93	7099.4
1980-1985	Maharashtra	3.5	27.53	7287.6
1980-1985	West Bengal	4	21.78	5002.6
1985-1990	Andhra Pradesh	8.4	14.99	5773.4
1985-1990	Gujarat	6.1	29.62	7872
1985-1990	Maharashtra	8.6	29.41	8497
1985-1990	West Bengal	4.3	19.92	5619.2
1990-1995	Andhra Pradesh	4.9	19.11	7190.8
1990-1995	Gujarat	8.5	32.03	9665.4
1990-1995	Maharashtra	6.5	29.34	11121
1990-1995	West Bengal	6	18.03	6516.4
1995-2000	Andhra Pradesh	5.5	17.36	8673
1995-2000	Gujarat	5.1	30.7	12981.1
1995-2000	Maharashtra	6.8	27.19	14013.2
1995-2000	West Bengal	7.3	17.9	8382.8
2000-2005	Andhra Pradesh	6.7	15.91	11163.6
2000-2005	Gujarat	8.3	30.84	14636.8
2000-2005	Maharashtra	3.8	20.96	15856.4
2000-2005	West Bengal	7	16.27	11008.4

Source: Statistical Abstract (Various Issues), Ministry of Statistics and Planning,
Government of India

Index of Labour Law Amendments at the sub-national level

State	Year	Amendment and codes	Overall Code	Besley and Burgess
Maharashtra	2006	Expansion of definition of Contract Labour	Pro Employer	Pro Labour
	2003	Contract Labour in SEZ cannot be scrutinised under central act	Pro Employer	
	2006	Expanding the definition of Factory is expanded	Pro Labour	
	1981	Expands the definition of Lay Off- compensation due to lay off	Pro Labour	
	2006	Enhanced the ambit of workman by increasing the salary to 6500	Pro Labour	
	1974	Procedural Labour Court-Industrial Tribunal	Neutral	Neutral
	2006	Expanding the list of exceptions when notice of termination is not required	Pro Employer	
	1972	Qualifies the term workman and recognised union	Pro Labour	
	1972	Recognised Union can sign agreements on behalf of all workmen	Pro Labour-Pro employer	
	1972	New Unions can terminate old settlements within 2 months	Pro-Labour	Pro Labour
	1981	100% wage in case of lay off due to contravention of Electricity Act	Pro Labour	
	1981	Govt. can update Chapter VB to extend rules in lay off, retrenchment and closure	Pro Labour	Pro Labour
	1982	Application for closure must be made 90 days prior and no communication within 60 days ensures automatic permission	Pro Employer	
	1972	Only recognised trade unions can represent workers in case of industrial disputes	Anti- Labour	Pro- Labour
	1981	Expansion of ID Act to firms	Pro-Labour	

		employing more than 100 workers		
	1983	Right to appeal decision of Industrial Tribunal	Pro-Labour	Pro-Labour
Andhra Pradesh	2003	Expanding the scope of Contract Act although prohibiting contract labour in core Activity	Pro Employer	
	2003	Abolition of State Advisory Board in determining Contract Labour, Abolition of rulemaking power for State Labour Board	Pro Employer	
	1968	Expands to prohibit strikes and lockouts in hospitals and dispensaries	Pro Employer	Pro employer
	1949	State Schedule to expand the industries under IDA-creation of tribunal	Pro State	Pro-Employer
	2008	Definition as per central act-	Neutral	
	1987	Individual Dispute can be directly addressed to court	Pro Labour	Pro Labour
	1987	Government has special power to contain disputes	Pro Employer	Pro-Employer
	1987	Payment of wages and due prior to closure	Pro Labour	Pro-Labour
	1987	Workers in muster roll of a reopened unit receive precedence	Pro Labour	Pro Labour
	1987	Where a workman is reinstated by award, reinstatement considered from day of award	Pro Labour	Pro-Labour
	1987	Voluntary Agreement at par with conciliation	Neutral	
	1987	Power to recover dues extended to chief judicial magistrates	Pro Labour	Pro Labour
	1982	Facilitates settlement of industrial disputes in labour courts	Pro- Labour	Pro-Labour
	1987	Penalty for not complying with govt. Order for prohibiting disputes	Pro-Employer	Pro Employer
	1987	Individual worker can move	Pro Labour	Pro Labour

		the court		
	1987	Lengthens the notice period for change of work conditions	Pro Labour	Pro Labour
West Bengal	1958	Qualification of Presiding Officer of Industrial Tribunal	Neutral	Neutral
	1959	Tenure of Presiding officer	Neutral	Neutral
	2007	IDA Act procedural change-specifying conciliation officers	Neutral	
	1974	Amending the definition of lay off two limit 2 hours. Prohibits lay off in the same day.	Pro Labour	Pro Labour
	1974	Defining Public Utility to prohibit strikes and lock out	Pro Employer	
	1980	Definition of retrenchment expanded and ill health removed from clause	Pro-Labour	Pro Labour
	1980	Expands definition of workman to include sales workers	Pro Labour	Pro-Labour
	1989	Termination of individual worker to be deemed industrial dispute	Pro Labour	Pro Labour
	1989	Enhancing definition of dispute to include refuses employment	Pro Labour	Pro Labour
	1980	Formation of works committee in IDA	Neutral	
	1987	Notice period for change of work condition increased	Pro Labour	Pro Labour
	1980	Increasing the time frame for conciliation	Pro-State	Pro Labour
	1989	Voluntary Arbitration	Pro-Employer	Pro Labour
	1980	Empowered labour courts to issue decree	Pro Labour	Pro Employer
	1989	Facilitates judicial settlement of labour dispute. Day to Day hearing in court	Pro Labour	Pro Labour
	1980	Government may stop or retain the enforceability of award	Pro State	Pro- Labour

	1980	Expunged the continuous 45 lay off qualification for retrenchment. Limit on lay off removed	Pro Labour	Pro Labour
	1980	Laid off worker to report once a week if laid off more than 7 days	Pro Labour	Pro Labour
	1989	Payment of wages and due prior to closure	Pro Labour	Pro Labour
	1980	Workers in muster roll of a reopened unit receive precedence	Pro Labour	Pro Labour
	1980	Where a workman is reinstated by award, reinstatement considered from day of award	Pro Labour	Pro Labour
	1980	Expanding the scope of chapter VB from 300 to 50 workers	Pro Labour	Pro Labour
	1989	Computation of compensation specified and Government may issue direction as required	Pro-Labour	Pro Labour
	1989	Closure must ensure due payment of wages	Pro-Labour	Pro- Labour
	2007	Penalty for breach of award increased	Pro-Labour	
	1980	Power to recover dues extended to chief judicial magistrate	Pro Labour	Pro-Labour
	1989	Section 38 procedural change	Neutral	Neutral
	1980	Period of 60 days increased to 90 days in case of permission for lay off	Pro- Labour	Pro-Labour
	1990	Qualification of Labour Judge	Neutral	Neutral
	1986	Greater power of labour courts in Industrial Disputes	Pro-Labour	Pro-Labour
	1989	Right of individual to approach Labour court after conciliation	Pro-Labour	Pro-Labour
Gujarat	1962	Qualification of presiding officer of Industrial tribunal	Neutral	Neutral
	1977	Qualification of Labour Court judge and Presiding Office of Tribunal	Neutral	Neutral

	1984	Procedural change-defining closure	Neutral	
	2004	Termination is put outside the scope of IDA	Pro Employer	
	2004	Procedural -Defining Lay Off	Neutral	
	2004	Constricting the definition of retrenchment to exclude SEZ	Pro Employer	
	2004	Defining termination as in principal act	Neutral	
	1972	Work Committee and Joint Management	Neutral	
	1977	Procedural Labour court	Neutral	
	2004	Unfair labour practices applicable in SEZ	Pro Labour	
	1972	Fine for non-application of joint management council	Pro Labour	Pro- Worker

The data is derived from P.L. Malik (2009). Handbook of Labour and Industrial Law. New Delhi: Eastern Book House. The computation and coding of labour law amendments is based on Contract Labour (Regulation and Abolition) Act 1970, Factories Act 1948 and Industrial Disputes Act 1947.

Although Employees Provident Fund and Miscellaneous Provisions Act 1952, Employees State Insurance Act 1948, Trade Union Act 1926 was considered, no sub-national amendment was found.

The classification results are similar to that of Besley and Burgess (2004) except for few cases where the classification should be pro-state rather than pro-employer or labour. A typical example would be the 1989 ID Act amendment in West Bengal which empowers the Government to stop or retain the enforceability of award in order to prohibit disputes. While Besley is not incorrect to classify it in the particular context of West Bengal as Pro-Labour amendment, the most

appropriate classification should be Pro-State as the amendment empowers the State.

Moreover the sub-national amendment is much wider in scope which is particularly relevant as contractual worker and trade unionism have emerged as important indicators of labour market under conditions of globalisation. The most significant labour law amendments in recent past have been regarding the employment of contractual labour.

Chapter 9

This is a modest attempt to present the arguments of this dissertation through quantitative data. The mathematical representation attempts to supplement theory with quantitative data. Since the case study is observed over time as well as space the econometric analysis is based on panel data regressions. Panel data allows control for variables that cannot be observed or measured like cultural factors or difference in business practices; or variables that change over time but not across entities. In short it provides for state specific heterogeneity. The advantage of panel data regression also lies in its ability to generate better estimates of long run relationship considering both fixed effect estimators as well as random effect estimators.

Random effects generalized least squares regression is used to estimate the relative importance of the party system and other factors hypothesized to influence economic policy changes. Random effects models assume that, in addition to the usual error term, there is additional, independent error terms specific to the cross-sectional and temporal variation.

As argued in the dissertation the significant sub-national variations in labour market flexibility despite similarity in economic and institutional framework is outcome of political economic factors especially partisan orientation of government, extent of trade unionism, party system fragmentation. Thus the supposed regression model would symbolize the following relation:

Labour flexibility = trade union strength + business strength + political configuration + state specific macroeconomic factors.

The particular regression takes the form

$$Y_{it} = \alpha_i + \beta_1 X_{1,it} + \beta_2 X_{2,it} + \beta_3 X_{3,it} + \beta_4 X_{4,it} + \beta_5 X_{5,it} + \beta_6 X_{6,it} + \varepsilon_{it}$$

Where

i=state; t= time

$Y = \text{Wage_NVA}$ (wage as a share of net value added)

$X_1 = \text{CONTPROP}$ (number of contract workers as proportion of total workers)

$X_2 = \text{PRIVEMP}$ (proportion of private sector employment among factory workers)

$X_3 = \text{STRIKEPART}$ (number of striking workers as a proportion of total workers).

$X_4 = \text{PUBDISP}$ (number of disputes in public sector as proportion of total dispute)

$X_5 = \text{ENPVT}$ (effective number of parties according to vote share)

$X_6 = \text{CAPLAB}$ (capital labour ratio in organized industry)

$\varepsilon =$ Error factor

The results of the regression analysis confirm the arguments presented in the dissertation as wage share (Wage_NVA - the dependent variable indicating wage flexibility) is positively influenced by the collective mobilisation by workers (STRIKEPART). The presence or size of private sector (PRIVEMP) does not emerge as a statistically significant factor indicating that the strength of business over policies is more a result of political economic dynamics. The argument about fragmentation having a positive effect on labour market flexibility is confirmed by the statistical test. Finally macro-economic factors like capital labour ratio (CAPLAB) and proportion of contractual workers (CONTPROP) has a negative impact on the wage share. Interestingly the extent of contractual workers is in itself a measure of labour flexibility.

Overall the result indicates that extent of labour flexibility is an outcome of interaction between economic and political variables. The relative strength of economic interest groups, political competition and overall economic structure combine to determine the extent of flexibility. Importantly for us, the results indicate a significant role for political actors and partisan dynamics.

Fixed-effects (within) regression
Group variable: State
R-sq: within = 0.6169
between = 0.7597
overall = 0.5545
corr(u_i, Xb) = 0.3724
Number of obs = 95
Number of groups = 4
Obs per group: min = 21
avg = 23.8
max = 25
F(6,85) = 22.81
Prob > F = 0.0000

Wage_NVA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
CONTPROP	-.1719635	.0430884	-3.99	0.000	-.2576347	-.0862922
PRIVEMP	.0249551	.190734	0.13	0.896	-.3542752	.4041855
STRIKEPART	.133199	.0318572	4.18	0.000	.0698583	.1965398
PUBDISP	.0555858	.0340971	1.63	0.107	-.0122084	.1233801
ENPVT	-.0165401	.0077214	-2.14	0.035	-.0318922	-.0011879
CAPLAB	-.0050346	.0008599	-5.85	0.000	-.0067443	-.0033249
_cons	.3708828	.1565459	2.37	0.020	.0596275	.682138
sigma_u	.07703657					
sigma_e	.0414178					
rho	.77576224	(fraction of variance due to u_i)				

F test that all u_i=0: F(3, 85) = 10.94 Prob > F = 0.0000

. estimates store fe

. xtreg Wage_NVA CONTPROP PRIVEMP STRIKEPART PUBDISP ENPVT CAPLAB, re

Random-effects GLS regression
Group variable: State
R-sq: within = 0.5250
between = 0.9857
overall = 0.8258
Number of obs = 95
Number of groups = 4
Obs per group: min = 21
avg = 23.8
max = 25
Random effects u_i ~ Gaussian
corr(u_i, X) = 0 (assumed)
Wald chi2(6) = 417.29
Prob > chi2 = 0.0000

Wage_NVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
CONTPROP	-.1388026	.0306997	-4.52	0.000	-.1989729	-.0786322
PRIVEMP	-.6269746	.0652811	-9.60	0.000	-.7549232	-.499026
STRIKEPART	.1148156	.0361576	3.18	0.001	.0439481	.1856832
PUBDISP	-.060977	.024372	-2.50	0.012	-.1087453	-.0132086
ENPVT	-.0294253	.0047879	-6.15	0.000	-.0388094	-.0200413
CAPLAB	-.0042159	.0009739	-4.33	0.000	-.0061247	-.0023072
_cons	.9583559	.0507392	18.89	0.000	.8589089	1.057803
sigma_u	0					
sigma_e	.0414178					
rho	0	(fraction of variance due to u_i)				

. estimates store re

. hausman fe re

	Coefficients		(b-B)	sqrt(diag(V_b-V_B))
	(b)	(B)	Difference	S.E.
	fe	re		
CONTPROP	-.1719635	-.1388026	-.0331609	.0302347
PRIVEMP	.0249551	-.6269746	.6519297	.1792145
STRIKEPART	.133199	.1148156	.0183834	.
PUBDISP	.0555858	-.060977	.1165628	.0238457
ENPVT	-.0165401	-.0294253	.0128853	.0060577
CAPLAB	-.0050346	-.0042159	-.0008187	.

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 37.97
Prob>chi2 = 0.0000
(V_b-V_B is not positive definite)

As the hausman test reveals that probability is less than Chi2, we accept the fixed effect model.

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